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DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, AND CERTAIN INDEPENDENT AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1987

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

UNITED STATES SENATE

NINETY-NINTH CONGRESS

SECOND SESSION

PART 1—(Pages 1-477)

AMERICAN BATTLE MONUMENTS COMMISSION
CONSUMER PRODUCT SAFETY COMMISSION
COUNCIL ON ENVIRONMENTAL QUALITY
ARMY CEMETERIAL EXPENSES
OFFICE OF CONSUMER AFFAIRS
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
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NATIONAL INSTITUTE OF BUILDING SCIENCES
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DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT-INDEPENDENT AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1987

TUESDAY, FEBRUARY 18, 1986

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10 a.m. in room SD–124, Hon. Jake Garn (chairman) presiding.

Present: Senators Garn and D'Amato.

AMERICAN BATTLE MONUMENTS COMMISSION

STATEMENT OF MAJ. GEN. ANDREW J. ADAMS, U.S. ARMY

ACCOMPANIED BY:

- **COL. CLAYTON L. MORAN, U.S. ARMY, DIRECTOR, PERSONNEL AND ADMINISTRATION,**
- **COL. WILLIAM E. RYAN, JR., U.S. ARMY, DIRECTOR, OPERATIONS AND FINANCE,**
- **COL. FREDERICK C. BADGER, U.S. ARMY, DIRECTOR, ENGINEERING AND MAINTENANCE**

OPENING REMARKS

Senator GARN. The subcommittee will come to order.

This is the first hearing of the HUD-Independent Agencies Subcommittee on the fiscal year 1987 budget. We have five agencies on the agenda this morning, so I will urge everyone to limit your opening remarks to 5 minutes. Of course, we will put your entire statements in the record.

The combined budget request for these five agencies totals about $62 million, or about one-tenth of 1 percent of the total for programs within the subcommittee's jurisdiction. However, the varied nature of the activities and the significant services that you provide the American public are, in my opinion, greatly out of proportion to your stated budgets. On behalf of the subcommittee, I am happy to welcome all of the agencies before the subcommittee.

First, we will have the American Battle Monuments Commission.

General Adams, we are happy to welcome you here this morning.

PRINCIPAL FUNCTIONS

The principal functions of the American Battle Monuments Commission are to commemorate the achievements and sacrifices of the U.S. Armed Forces through the construction and maintenance of suitable memorial shrines where the U.S. Armed Forces have served and to maintain permanent American military burial grounds in foreign countries. The Commission administers, operates, and maintains 24 permanent American military cemetery memorials, 14 separate monuments in 12 foreign countries, and 4 memorials in the United States. During fiscal year 1985, the cemeteries, monuments, and memorials were visited by over 12.5 million people. In addition to its other activities, the Commission provides information and assistance on requests to relatives and the friends of the war dead interred in or commemorated at its facilities.

In fiscal year 1987, the Commission is requesting $11,673,000 and 387 positions. This is an increase of $1,305,000 over the fiscal year 1986 appropriation, which includes a $466,000 anticipated reduction pursuant to Public Law 99–177, commonly known as Gramm-Rudman-Hollings.

Please proceed with your opening remarks.

SUMMARY OF STATEMENT

General ADAMS. Mr. Chairman, as you have a copy of my prepared statement, and it will appear verbatim in the record, I will summarize its contents to conserve time.

Last November and December, I inspected each of our cemeteries in the European and Mediterranean areas and most of the memorials there. It is a pleasure to report that they are in the best condition that I have ever seen.

Vice President Bush laid a wreath at the Saipan Monument in October. He was pleased with its appearance. At last year's hearings, we told you that the Saipan Monument was being landscaped, and we promised you photographs of the completion. We have them here, if you wish to see them. Regarding our appropriation request, I am concerned about the rapidly falling value of the dollar, inflation in countries where installations are located, and the future cuts in appropriations that would be imposed by the Gramm-Rudman-Hollings Deficit Reduction Act. Their combined effect will jeopardize our present standard of maintenance.

The Commission's appropriation request for fiscal year 1987 is $11,673,000, or $1,305,000 more than our fiscal year 1986 appropriation, as reduced.

This completes my summary.

We would be pleased to respond to your questions.

[The statement follows:]

STATEMENT OF MAJ. GEN. ANDREW J. ADAMS

Mr. Chairman and members of the subcommittee, thank you for the opportunity to testify today in support of the American Battle Monuments Commission's fiscal 1987 appropriation request.

During the month of November last, I inspected each of our cemeteries in the European and Mediterranean areas and most of our memorials there. I am pleased to report that I found our installations to be more beautiful and meticulously maintained than ever before. The grounds and structures all were in an excellent state of repair; supplies, equipment, and spare parts were adequate; and the morale of our personnel was excellent. This is due almost entirely to the favorable dollar exchange rates during the past several years. All Americans can be extremely proud of the manner in which our heroic war dead are being honored at these shrines.

The landscaping of the Saipan Monument was completed last May. Vice President Bush laid a wreath at the monument in October and was laudatory in his comments about it. Colonel Badger, our Director of Engineering and Maintenance, recently returned from an inspection of the Saipan Monument. He reports that the new plantings are taking hold very well and that the National Park Service is doing an excellent job in its day-to-day care.

Regrettably, fiscal 1985 may be the last time in the foreseeable future that we will be able to maintain these shrines at the present standard. I say this because of the anticipated impact of the rapidly falling dollar on foreign exchange markets, inflation in the countries where our installations are located, and the future reductions in spending that will be dictated by the Gramm-Rudman-Hollings Deficit Reduction Act. Indications are that the combined effect of these factors beyond our control may reduce the purchasing power of our budget request by more than 30 percent.

Because the Commission is basically a service-type organization, our personnel costs are 72 percent of the request. This leaves only 28 percent of our budget for the entire administration, operation, and maintenance of these shrines. If all costs other than personnel such as communications, utilities, supplies, equipment, spare parts, and repairs were eliminated—which, of course, is impossible—there will be insufficient funds to pay our personnel under the scenario of a continuingly falling dollar on world markets, inflation overseas, and an across-the-board cut under the Gramm-Rudman-Hollings Act of any significance. I am convinced that this is a conservative assessment. Needless to say, we seriously need all of the funds in our request together with a strengthening of the dollar overseas, and a relatively small across-the-board reduction under the Gramm-Rudman-Hollings Act.

The Commission's appropriation request for fiscal 1987 is $11,673,000, $1,305,000 more than our fiscal 1986 appropriation as reduced by Public Laws 99–166 and 99–177.

This concludes my prepared statement. We will be pleased to respond to your questions. Thank you for your attention.

OVERSEAS STRENGTH OF THE DOLLAR

Senator GARN. Thank you, General.

For the past 5 years, the American Battle Monuments Commission has benefited from the strong position of the U.S. dollar overseas. Over the last few months, the dollar has been weakening. That is a deliberate policy, and the administration is attempting to do that.

But what effect has this had on your expenditures overseas?

General ADAMS. There has been approximately a 12-percent drop in the strength of the dollar since the beginning of this fiscal year. In fact, since last July, the exchange rate has dropped about 22 percent.

Senator GARN. How much of your $11,673,000 is spent overseas?

General ADAMS. About $10,850,000, or 93 percent, of the request will be spent overseas.

Senator GARN. Does the fluctuation of the dollar affect your nonpersonnel areas?

General ADAMS. It does affect it. It affects all of our expenditures overseas, except the salaries of U.S. employees and the personnel benefits of U.S. and local national employees that are paid to agencies in the United States.

EFFECTS OF CONTINUED DECLINE IN THE DOLLAR

Senator GARN. Could you describe some of the problems that you would anticipate if the dollar does continue to decline?

General ADAMS. I'm afraid, sir, that it would be a disaster for us this year if the value of the dollar continues to decline. We have already lost about $1,800,000, and that includes $850,000 to currency exchange; $500,000 to inflation, providing that inflation doesn't average more than 6 percent in the countries where the installations are located; and $466,000 to Gramm-Rudman, for a total of $1,816,000.

With a budget of $10,368,000 and estimated personnel costs of $8,810,000, only $1,558,000 remain, and $1,350,000 of that will be needed to offset currency exchange and inflation. If we were not scheduled for a supplemental to defray part of our increased personnel costs, we would have difficulty in paying for our utilities, despite freezing purchases and repairs other than those of an emergency nature.

Senator GARN. Although it does cause you problems, overall, we simply have to hope the dollar does continue to decline because of the exceedingly high record trade deficits we are having. I understand that for an agency like yours that does spend most of your money overseas, it does create some problems. But overall, we have got to hope that it does continue to decline because of the overall trade situation.

SUPPLEMENTAL APPROPRIATION REQUEST

You mentioned the supplemental. OMB is currently estimating that at $235,000. Assuming that the overseas dollar holds at its present level from now until October 1, would the passage of the $235,000 supplemental require the Commission to absorb any of the cost increases, and if so, how much?

General ADAMS. The $235,000 would offset the Wage Board increase cost-of-living but not the $17,000 for statutory military pay and roughly $30,000 of exchange losses for the Wage Board increase that have occurred since theywere computed.

Senator GARN. We make an assumption there that it stays steady. Would you anticipate the dollar would stay steady until October?

General ADAMS. I don't believe it will, sir.

Senator GARN. So what you are saying is $235,000 will probably not be adequate?

General ADAMS. That is correct, sir.

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General ADAMS. That is correct, sir.

EFFECTS OF SEQUESTRATION

Senator GARN. Could you briefly describe the effects of the $466,000 sequestration in your fiscal year 1986 budget?

General ADAMS. The sequestration of $466,000 on top of the falling dollar exchange rates and inflation in the countries where we are located has forced us to curtail drastically our supply and equipment purchases and to defer most contracts for repairs other than those of an emergency nature.

Senator GARN. How would the agency adjust to an across-the-board budget reduction, or sequestration, on the order of 20 percent if required in the fiscal year 1987 budget?

General ADAMS. A 20-percent sequestration, plus inflation and any continued reduction in dollar exchange rates, would not permit us to perform more than minimal care of the shrines for which we are responsible. In fact, we probably would not have enough funds to pay our employees and utilities.

KOREAN WAR MEMORIAL

Senator GARN. Are the veterans of the Korean War the only major group of service men and women today whose service the country has not been recognized with a national memorial?

General ADAMS. Yes, they are the only ones to whom at least one separate Federal memorial has not been erected. In that regard, the Commission has erected 14 World War II memorials and 5 separate monuments around the world. Originally, we planned to erect three memorials in Korea, but later, considering the great distances involved, it was decided that one larger memorial in the Washington area would better serve our veterans and their families.

Senator GARN. Does the fiscal year 1987 budget request include any funds for the design of the Korean War memorial?

General ADAMS. No, sir, it does not. The Commission's initial request to OMB included $500,000 for the design of a Korean memorial, but it was deleted by the Office of Management and Budget.

Senator GARN. Do you believe the funds for construction could be raised through non-Federal sources?

General ADAMS. I believe they could. With no special effort on our part, during the past 12 months, 150 donations in the amounts of about $5,000 have been received for the erection of a Korean memorial by the Commission.

Had we mounted strong publicity campaigns for the funds, I believe the amount contributed to date would have been many times larger. In fact, I would not be surprised if ultimately, sufficient funds were donated not only to construct the memorial, but also to reimburse the Federal Government for any design costs and to defray some of the memorial's annual cost of maintenance.

All donors receive from us a letter informing them that their donation is being deposited in a special trust account with the U.S. Treasury; that it will be utilized solely for the purpose intended and that if, for any reason, the Commission does not erect a memorial, their donation will be returned to them upon request.

Senator GARN. Suppose we did go ahead with this private funding? How do you suggest that the integrity of the funds be maintained so that they actually go to the memorial rather than the operating expenses for a private group, which we have seen sometimes happen in the past?

General ADAMS. The integrity of the funds will be maintained if a Federal agency erects the memorial rather than a private organization; the funds come directly to that agency and are deposited in their entirety with the U.S. Treasury; they are used only for the purpose intended. No commercial soliciting firm is employed, as such firms charge from 30 to 90 percent of every dollar they collect for their services.

FUNDING FOR LATIN AMERICA

Senator GARN. The table on page 5 of your budget justification indicates that the funding proposed in fiscal year 1987 represents an increase over fiscal year 1985 in all parts of the world except for Latin America. Could you explain that shift in location?

General ADAMS. For the past few years, the major expenditures in the Latin area have been for the renovation of the Corozal American Cemetery. That renovation program is essentially complete except for renovation of the chapel. Until that project commences, the costs down there will be primarily for normal maintenance and for repairs.

SUBMITTED QUESTIONS

Senator GARN. General, we have an additional five pages of questions I would like to submit to you for your response in writing. Unless you have any other comments that you or the people would like to make, that is all the oral questions I have for you this morning.

General ADAMS. We would be happy to answer your questions in writing, sir.

Senator GARN. Thank you very much.

[The following questions were not asked at the hearing but were submitted to the Commission for response for the record:]

QUESTIONS SUBMITTED BY SENATOR GARN

HOME LEAVE TRAVEL

Question: Last year, you requested $61,200 for home travel for 45 eligible employees and dependents. This year you are requesting $99,000 for the home leave of 67 employees and dependents. Last year you employed 43 U.S. civilians overseas. Of the 50 Commission's U.S. civilian employees how many are permanently assigned overseas?

Answer: Forty-three of our U.S. civilian employees are permanently stationed on foreign soil.

Question: The numbers you have been providing us indicates a 36 percent increase in the number of employees and dependents taking home leave last year over the year before, and another 49 percent increase over last year's numbers anticipated for this year. Can you explain this trend and how long should we expect to see such large percentage increases?

Answer: It was just recently that our U.S. civilian personnel permanently stationed overseas were authorized home leave at two year rather than three year intervals. Fiscal 1987 will be the last year that you will see such large percentage increases.

COMMEMORATIVE PROJECTS

Question: You completed the landscaping of the Saipan Monument last May. What projects will you be engaged in during the remainder of fiscal year 1986 and during fiscal year 1987?

Answer: No commemorative projects are scheduled for FY 86 or 87.

REPAIRS

Question: Would you please provide a list of major repairs projects which are programmed for fiscal year 1987?

Answer: The following repairs are programmed for FY 1987:

Manila Cemetery	Repoint hemicycle Phase III	$29,000
Ardennes Cemetery	Drill & instl replacement well	70,000
Suresnes Cemetery	Relevel headstones	30,000
Henri-Chapelle Cemetery	Reset steps to burial area	20,000
Normandy Cemetery	Provide security at parking lot	50,000
Epinal Cemetery	Instl automatic sprinklers	80,000
Cambridge Cemetery	Relevel walk, wall of missing	40,000
Aisne-Marne Cemetery	Instl sprinklers PH I of II	35,000
Lorraine Cemetery	Resurface service area	45,000
Suresnes Cemetery	Paint perimeter fence	45,000
Corozal Cemetery	Rehab chapel interior	34,700
Honolulu Memorial	Support floor slabs courts of the missing	28,000

EQUIPMENT

Question: You have requested $388,000 to replace uneconomically repairable and wornout vehicles and equipment. Would you please provide, for the record, a list indicating the number and types of vehicles and equipment that you expect to replace in FY 1987.

Answer: The following equipment is programmed for replacement in FY 1987 depending upon the availability of funds:

Truck, carryall.............	1	Tractor, compact...............	1
Truck, 1/2 ton pick up......	3	Trailer, dump..................	2
Truck, 1 ton dump...........	1	Trailer, equipment.............	3
Truck, 1 ton, stake.........	1	Trimmer, hedge, electric.......	7
Calculator, printing elec...	5	Trimmer, lawn, power...........	3
Typewriter, electric........	3	Truck loader, vacuum.	2
Typewriter, manual..........	3	Weed eater.....................	3
Image copier................	1	Cart-truck, turf, util, pwr....	2
Computer component..........	1	Charger, battery...............	4
Edger, flower & shrub bed...	2	Cleaner, vacuum, electric......	4
Aerifier, lawn, power.......	8	Compressor, air, shop type.....	3
Blower, leaf................	8	Drill, portable, electric......	9
Brush & weed cutter.........	2	Drillpress.....................	4
Cultivator, power...........	1	Dumper, power, turf truck......	5
Edger, lawn, power..........	5	Generator, portable............	12
Grinder, compost............	1	Grinder, bench.................	5
Mower, rotary, tractor, mtd.	1	Lapping machine,mower blade....	3
Mower, power, reel, trim....	5	Polisher, floor, electric......	3
Mower, power, reel,30-34in..	25	Pump, water, portable..........	4
Mower, power, wide cut,reel.	3	Sander-polisher, disc, elec....	6
Mower, rotary,HD-SP,50-60in.	1	Sander, orbital, electric......	5
Mower, rotary, air cushion..	10	Saw, circular, portable elec...	5
Mower, rotary, trim, hand...	2	Sharpener, lawn mower..........	1
Mower, rotary, SP,20-32 in..	17	Snow thrower...................	2
Saw, power, portable,chain..	12	Sprayer, high pressure, pwr....	1
Scarifier, verticut,power...	6	Welder, electric arc...........	3
Sod cutter, power...........	2	Welder, oxyacetylene...........	2
Sprayer,insecticide,power...	2	Sprayer, hp, hand..............	1
Sprayer, power, select weed.	1	Brush grinder, ged, tlr mtd....	2
Spreader, fertilizer centrif	4	Scaffolding, light alloy.......	1
Spreader, selective weed....	4	Heater, water, electric........	2
Sweeper, power,vacuum type..	5	Range, kitchen.................	3
Sweeper, pwr, vacuum, trl...	3	Refrigerator, electric.........	6
Tiller, power...............	2	Air conditioner................	3
Tractor, agriculture........	1	Miscellaneous hand tools.......	23

DISTRIBUTION OF REQUESTED BUDGET BY INSTALLATION

Question: Last year, you provided us with a distribution of the budget by installation. Would you please provide, for the record, a table of the annual budgets for the Commission's installations for FY 1985, 1986 and 1987?

Answer: The annual budgets for the years requested are as follows:

Cemetery/Office	Fiscal 1985	Fiscal 1986	Fiscal 1987
Washington Office	737,063	754,000	763,000
Paris Office	1,227,995	1,399,626	1,585,995
Aisne-Marne	439,853	363,782	377,841
Ardennes	440,911	419,513	534,592
Brittany	288,014	300,348	320,575

Brookwood	61,923	88,669	79,227
Cambridge	257,789	252,683	317,842
Epinal	290,648	282,797	435,578
Flanders Field	158,763	157,920	182,107
Henri-Chapelle	467,523	389,429	474,125
Lorraine	766,604	610,688	685,745
Luxembourg	284,659	256,340	304,055
Meuse-Argonne	557,517	669,359	676,815
Netherlands	529,235	447,620	504,650
Normandy	859,493	621,604	635,733
Oise-Aisne	344,422	305,205	310,759
Rhone	213,125	176,997	199,420
Somme	191,403	168,172	192,806
St. Mihiel	251,200	236,262	256,742
Suresnes	155,916	256,492	281,393
Rome Office	283,939	298,486	342,466
Florence	446,678	377,164	479,760
North Africa	255,719	220,747	265,924
Sicily-Rome	421,518	445,603	513,850
Asian Office/Manila	604,041	585,000	650,000
Latin Office/Corozal	376,044	228,000	243,000
Mexico City	92,979	55,000	59,000
TOTAL	11,004,974	10,367,506	11,673,000

DEPARTMENT OF DEFENSE—CIVIL

DEPARTMENT OF THE ARMY

ARMY CEMETERIAL EXPENSES

STATEMENT OF MAJ. GEN. JOHN L. BALLANTYNE, U.S. ARMY, COMMANDER, MILITARY DISTRICT OF WASHINGTON

ACCOMPANIED BY:

- **JULIUS SMITH, PROJECT ENGINEER, ARLINGTON NATIONAL CEMETERY**
- **LT. COL. KENNETH DUNN, MILITARY ASSISTANT, ASSISTANT SECRETARY OF THE ARMY (CIVIL WORKS)**
- **RAYMOND J. COSTANZO, SUPERINTENDENT, ARLINGTON NATIONAL CEMETERY**
- **RORY SMITH, BUDGET ANALYST, ARLINGTON NATIONAL CEMETERY**
- **RAYMOND J. PETTIS, DIRECTOR, RESOURCE MANAGEMENT, OFFICE OF THE ADJUTANT GENERAL**

INTRODUCTORY REMARKS

Senator GARN. Next, if I could invite those representing Army cemeterial expenses to the witness table?

General Ballantyne, Lieutenant Colonel Dunn, and Mr. Smith, I would like to welcome you here for the first time to the subcommittee. Mr. Costanzo and his associates have been here before.

You have the responsibility for the operation of the Arlington National Cemetery and the Soldiers' and Airmen's Home National Cemetery. These facilities contain the remains of over 212,000 persons and comprise approximately 620 acres.

During fiscal year 1987, your budget assumes 4,035 burials, and inurnments, cemetery personnel care for the maintenance of the shrubs, the Memorial Amphitheater, the Tomb of the Unknown Soldier, and the various buildings and vehicles.

BUDGET REQUEST

Your budget request for fiscal year 1987 is $15,783,000, which is an increase of $1,168,000 over fiscal year 1986 funds that were appropriated.

Please proceed with your opening statement.

General BALLANTYNE. Mr. Chairman, good morning.

We appreciate the opportunity to testify in support of the fiscal year 1987 appropriation request for cemeterial expenses, Department of the Army.

I have submitted my opening statement for the record. I would like to summarize that statement.

Arlington National Cemetery is the Nation's most prestigious shrine in honor of those who have made the ultimate sacrifice to protect our freedom. During fiscal year 1985, Arlington National Cemetery played host to over 3.5 million visitors. The President of the United States and the Prince and Princess of Wales attended the 1985 Veterans Day ceremonies.

For fiscal year 1987, we are requesting $15,783,000. Funds to construct the permanent visitors center were approved in the fiscal year 1986 appropriation. Included in our fiscal year 1987 request is funding for an associated parking facility.

We want to thank the subcommittee for its steadfast support in the past for the visitors center. We look forward to your participation in the dedication of the center when it is completed.

Senator GARN. Does that complete your statement?

General BALLANTYNE. Sir, that completes my opening statement.

[The statement follows:]

STATEMENT OF MAJ. GEN. JOHN L. BALLANTYNE

Mr. Chairman, members of the committee, good morning. I am testifying on behalf of the Assistant Secretary of the Army (Civil Works), Mr. Robert K. Dawson, who is currently testifying before another congressional committee. He will be available to answer, for the record, any questions you may have. As the Commander of the U.S. Army Military District of Washington, I have been tasked to assume responsibility for the administration and operation of Arlington National Cemetery and the U.S. Soldiers' and Airmen's Home National Cemetery. I thank you for the opportunity to testify today in suppport of the fiscal year 1987 appropriation request for cemeterial expenses, Department of the Army. This appropriation funds salaries and expenses necessary for the operation of these cemeteries.

For fiscal year 1987 we are requesting $15,783,000, an increase of $1,168,000 above the amount approved for fiscal year 1986. The increase consists of $724,000 in construction and $444,000 for operation and maintenance.

Funds to construct the permanent visitors center were approved by the Congress in the fiscal year 1986 appropriation, and construction is planned to begin in July 1986. Included in our fiscal year 1987 request is $9,082,000 for an associated parking facility, and construction is planned to begin in late 1986.

The $444,000 increase in operation and maintenance will provide the minimum essential funds required to bring Arlington National Cemetery up to the maintenance standards expected at this national shrine. These funds will provide for the full employment of 142 work-years, upgrading the maintenance of the buildings and grounds, and provide the necessary supplies and equipment.

Arlington National Cemetery is this Nation's most prestigious and principal shrine. It is a visible reflection of America's appreciation for those who have made the ultimate sacrifice to maintain our freedom. In addition to the thousands of funerals held there each year—accompanied by military honors—hundreds of nonfuneral ceremonies honoring those whose remains are interred/inurned within the confines of this cemetery are conducted as well. Thousands of citizens, as well as American and foreign dignitaries, visit Arlington to participate in these solemn events. The President of the United States and the Prince and Princess of Wales attended the 1985 Veterans Day ceremonies. During fiscal year 1985, Arlington National Cemetery played host to over 3.5 million visitors, including 10 foreign heads of state. It is second only to the Smithsonian Institution as the most visited public facility in the national Capital region. In fiscal year 1985 there were a total of 3,904 interments and inurnments.

The second 5,000-niche unit of the Columbarium has recently been completed. Use of the Columbarium has been greater than expected, and current projections forecast the filling of available spaces by 1991. To preclude interruption of inurnment because of time delays in design and construction, funds for design of the next increment will be requested in fiscal year 1988.

Approval of our fiscal year 1987 request will permit us to continue the high standards of maintenance expected at these cemeteries and to construct the parking facility associated with the visitors center. We want to thank the committee for its steadfast support in the past for the visitors center. We look forward to your participation in the dedication of the facility when it is completed.

The dollar amounts shown for the fiscal year 1986 column in the budget justification do not reflect the impact of the Balanced Budget and Emergency Deficit Control Act, Public Law 99-177.

Mr. Chairman, this concludes my remarks. We will be pleased to respond to questions from the committee at this time.

ORGANIZATIONAL RESPONSIBILITY

Senator GARN. I noted from your testimony that the U.S. Army Military District of Washington, rather than the U.S. Army Military Personnel Center, is now tasked to administer and operate Arlington National Cemetery and the U.S. Soldiers' and Airmen's Home National Cemetery. Why has this transfer of responsibility taken place?

General BALLANTYNE. Since 1955, there has been a system of dual responsibility for the supervision and management of the Army national cemetaries. The Commander of the U.S. Army Military District of Washington was tasked with the immediate supervision responsibilities, while other various offices had the staff supervision responsibilities. That system required reimbursement for two military spaces.

A recent examination reveals that the operation of the Army National Cemetaries could be accomplished more efficiently by eliminating the dual responsibility and assigning complete responsibility to one manager.

Senator GARN. Do you expect that the level of funding that this appropriation has been required to reimburse the military personal appropriation will change as a result of the organizational change?

General BALLANTYNE. Yes, sir. This action will ultimately result in phasing out a reimbursement for the two military spaces that were previously involved.

GRAMM-RUDMAN-HOLLINGS IMPACT

Senator GARN. The 4.3-percent sequestration ordered by the President in order to comply with the Gramm-Rudman-Hollings bill would reduce your fiscal year 1986 appropriation by $628,000. I understand that in order to ensure that the construction funds remain available for the visitors' center, you plan to reduce operations and maintenance by 10 percent and administration by 8.5 percent; is that correct?

Mr. COSTANZO. Yes, sir.

Senator GARN. What would be the impact of these reductions on the work of your agency in fiscal year 1986?

Mr. COSTANZO. Mr. Chairman, the general appearance of this national shrine will deteriorate, maintenance backlogs will occur, and the appearance of Arlington National Cemetery will suffer. Reduced funding will be most noticeable in headstone alignment, tree maintenance, maintenance of buildings and grounds, acquisition of supplies, material, and equipment and civilian pay. Headstone realignment will be reduced 70 percent and tilted headstones would become apparent.

Refilling the sunken graves and cleaning of headstones will be curtailed. Tree maintenance will be reduced 90 percent. Contract tree pruning will be virtually eliminated. Pruning of dormant oak trees and planting of new trees will be deferred. Leaf and tree debris removal will be reduced 60 percent.

The application of new sod, top soil, fertilizers, and herbicides will be reduced 50 percent and turf maintenance will be curtailed. Landscaping will be deferred. Necessary minor building repairs will be deferred. Scheduled replacement of old equipment will be deferred, causing safety hazards, increased down time, and eventual increase of maintenance costs. Utilization of temporary personnel during peak work periods will not be available.

If we continue to defer such high visibility items, there will be a strong adverse public reaction to the appearance of this national shrine, and the cost of taking corrective actions will be considerable.

Senator GARN. Do you have estimates of either what a 10-percent or a 20-percent sequestration would be on the fiscal year 1987 budget?

Mr. COSTANZO. Yes, sir. There will be insufficient funds to construct a parking facility associated with the visitors center as planned and approved by the Commission on Fine Arts.

Senator GARN. Could you provide two tables for the record indicating the specific fiscal year 1986 Gramm-Rudman-Hollings reductions by object classification, using the format of the tables on pages 10 and 11 of your budget justification?

Mr. COSTANZO. Certainly.

[The information follows:]

FISCAL YEAR 1986 GRAMM-RUDMAN-HOLLINGS REDUCTIONS

[In thousands of dollars]

Object classification	Fiscal year 1986 — Current estimate	Fiscal year 1986 — After G-R-H	G-R-H reductions
Personnel compensations	3,278	3,123	155
Personnel benefits	510	491	19
Other services	1,683	1,574	109
Supplies and materials	450	275	175
Equipment	170		170
	Other Services, Object Class 25		
Maintenance of buildings	9		9
Headstone and realignment	84	24	60
Tree maintenance	17	2	15
Support agreement w/MDW	50	25	25

VISITORS CENTER

Senator GARN. As I mentioned last year, the Arlington National Cemetery master plan, which was approved by Congress in 1967, provided for a permanent visitors center and parking facilities. A temporary visitors center and parking lot were constructed in 1969 and are still in use.

The original underground permanent visitors center and two-tiered parking facility was estimated in 1967 to cost $36 million. This was considered too costly and the second concept for an above-ground visitors center and parking facility was developed.

The fiscal year 1986 HUD-Independent Agencies appropriations bill provided $8,358,000 for the construction of the visitors center.

Your fiscal year 1987 budget request contains $9,082,000 for the construction of the parking facility.

Is the final design for the two projects completed yet?

Mr. SMITH. No, Senator. The final design for the two projects will be completed in April 1986.

Senator GARN. Are there any unanticipated problems that have arisen as you have worked on the design?

Mr. SMITH. There are no anticipated problems that would increase the cost.

Senator GARN. What is the construction schedule that you anticipate for both the visitors center and the parking facility?

Mr. SMITH. Construction is to begin in July 1986 on the visitors center, followed by construction of the parking facility in November 1986. The total project will be completed in December 1987.

COLUMBARIUM

Senator GARN. I note that in your opening statement that the use of the Columbarium at the Arlington National Cemetery has exceeded your present planning levels. I would like to understand why this is and how you plan to revise your present plan.

Let me be more specific, if I can. First, what are the eligibility requirements for inurnment in the Columbarium at the National Cemetery and how do they differ from those for internment at a grave site of the cemetery?

Mr. COSTANZO. Sir, any veterans whose last period of military service terminated honorably is eligible for inurnment in the Columbarium. Interment at a grave site is restricted to: first, military personnel who die on active duty; honorably discharged veterans who held national elective office; retired military personnel; honorably discharged veterans who have held appointed positions at level one or two; and honorably discharged veterans who have received this Nation's highest military awards for valor and/or for a service-connected disability rated at 30 percent or more.

Senator GARN. How many inurnments had you planned for at this point in time, and how does that differ from what you are experiencing?

Mr. Costanzo. In 1980, when the Columbarium was opened, we had estimated that we would service approximately 700 cases per year. We are, however, averaging approximately 1,000 cases per year.

Senator Garn. How do you account for that difference?

Mr. Costanzo. We feel that this dramatic increase can be attributed to two factors. First, a matter of economics. It costs the family far less to transport cremated remains from distant points to the Arlington National Cemetery; and second, the availability of the Columbarium for honorably discharged veterans has been given wide national coverage in all the major veterans organizations' publications.

Senator Garn. In order to preclude an interruption of inurnment, when do you have to complete construction of the next Columbarium module?

Mr. Costanzo. The Columbarium currently under construction will be available for use by March 10 this year. The next Columbarium module will be required by April 1991.

Senator Garn. What size would you propose for the next module?

Mr. Costanzo. For the next module, we are requesting a 10,000-niche Columbarium.

Senator Garn. What is the overall plan for completion of the Columbarium?

Mr. Costanzo. The overall plan originally called for the construction of a facility with 50,000 niches to be built in 5,000-niche increments. Because of the increased demand and to avoid interruption of inurnments, we would like to construct a 10,000-niche module next and the remaining 30,000 niches are to be constructed in 10,000-niche increments, approximately one every 8 years.

WORKLOAD

Senator Garn. How will the workload for your operational personnel differ from the requirements in fiscal year 1984 and fiscal year 1985?

Mr. Costanzo. The work load will increase in five separate areas. Inurnments and internments will be increasing from 3,715 in 1984 to 4,035 in 1987. Headstone realignment will increase from 18,900 in 1984 to 19,700 in 1987.

Tree and shrub maintenance will increase from $57,000 in 1984 to $62,000 in 1987. Turf maintenance and weed eradication will be increased by approximately $175,000. Custodial care for the recently completed Columbarium will require service of approximately three quarters of a work-year, or 1,500 work-hours.

SUBMITTED QUESTIONS

Senator Garn. Thank you very much, gentlemen. I have an additional four pages of questions for your response in writing.

[The following questions were not asked at the hearing but were submitted for response for the record:]

QUESTIONS SUBMITTED BY SENATOR GARN

EQUIPMENT

Question: How many pieces of equipment and vehicles were serviced or repaired in FY 85?

Answer: There were 1,560 work orders processed to cover repairs on the 240 motorized pieces of equipment ant vehicles.

VEHICLES

Question: During FY 87, you intend to replace six small trucks. What is the age and total mileage of these vehicles? What do you estimate will be the total replacement cost? What purposes do you intend to use these vehicles for?

Answer: All of these vehicles are 7 years old, which is the required age for replacement. The average mileage for these vehicles is 36,000. The total replacement cost will be $48,000. These vehicles are used for transportating employees, materials and supplies to various worksites scattered throughout the 600 acres of the cemetery.

NON-FUNERAL CEREMONIES

Question: What is the impact in the growth of nonfuneral ceremonies and how will it impact on the future budgetary requirements?

How are expenses incurred in connection with nonfuneral events at the Arlington National Cemetery?

What were the expenses associated with the more than 1,885 nonfuneral events held there last year?

What criteria are currently used to determine what nonfuneral events should be allowed?

Answer: The growth of nonfuneral ceremonies was adversely impacting upon the solemnity and decorum at the Tomb of the Unknown Soldier. Because of the unmanageable large number, they began to take on an assembly line atmosphere. We have now limited ceremonies at the Tomb of the Unknown Soldier to not more than two every hour. There will be no increase in budgetary requirements for this function.

Cemetery employees are used to set up, service and clean the ceremonial areas.

Approximately 6 workyears, at an estimated cost of $150,000, were expended to service ceremonies in Fiscal Year 1985.

The only criteria used is that the ceremony must be dedicated to the memory of members of the United States Armed Forces who have died in the service of our nation.

GRAVES AND NICHES

Question: Please provide for the record the remaining capacities for Arlington National Cemetery and the Soldiers' And Airmen's Home National Cemetery.

How many headstones were set, reset or realigned in FY 85? How many are anticipated to be set, reset or realigned in FYs 86 and 87?

What is the current average price?

How many headstones were cleaned in FY 85? How many headstones are anticipated to be cleaned in FY86 and FY87?

How many graves were refilled in FY 85? How many graves are anticipated to be refilled in FYs 86 and 87?

How many graves were resodded in FY 85 and how many are anticipated to be resodded in FY 86 and 87?

How many niche markers were sealed in FY 85?

How many are anticipated to be sealed in FY 86 and 87?

Answer: A total of 182,771 gravesites have been used as of 30 September 1985; 50,299 were available as of 30 September 1985. The projected closing date for Arlington National Cemetery is the year 2021, and Soldiers' And Airmen's Home is the year 2003.

HEADSTONES SET, RESET OR REALIGNED

FY85 Actual	FY86 Required	FY86 (G-R-H) Currently Planned	FY87 Required
19,746	11,000	3,000	11,000

The current average price is $7.64 each.

HEADSTONES CLEANED

FY85 Actual	FY86 Required	FY86 (G-R-H) Currently Planned	FY87 Required
18,664	19,600	13,720	20,500

GRAVES REFILLED

FY85 Actual	FY86 Required	FY86 (G-R-H) Currently Planned	FY87 Required
11,783	12,000	8,400	12,000

GRAVES RESODDED

FY85 Actual	FY86 Required	FY86 (G-R-H) Currently Planned	FY87 Required
5,886	5,900	4,130	5,900

NICHE MARKERS SEALED

FY85 Actual	FY86 Required	FY87 Required
1,233	1,295	1,360

GENERAL SERVICES ADMINISTRATION

CONSUMER INFORMATION CENTER

STATEMENT OF MS. TERESA NASIF, DIRECTOR

ACCOMPANIED BY WILLIAM B. EARLY, JR., DIRECTOR OF BUDGET, GENERAL SERVICES ADMINISTRATION

BUDGET REQUEST

Senator GARN. Next I would like to have the Consumer Information Center come to the table.

Ms. Nasif, it is a pleasure to have you appear before the committee again.

The Consumer Information Center was established within the General Services Administration by executive order on October 26, 1970, with the mission of encouraging Federal departments and agencies to develop and publish practical, relevant consumer information and to increase public awareness of access to this information.

The quarterly Consumer Information Catalog is the primary way that CIC is able, I believe, to promote public awareness of Federal publications. To help offset the Federal Government's cost in providing this information, CIC is charging a user fee of $1 for two or more free publications from the catalog.

This year, you are requesting $1,272,000. This represents an increase of $90,000 over your adjusted fiscal year 1986 appropriation.

Would you please proceed with your statement?

Ms. NASIF. Thank you.

OPENING STATEMENT

Mr. Chairman and members of the subcommittee, I want to thank you for the opportunity to be here today to discuss the fiscal year 1987 budget request for the Consumer Information Center.

In fiscal year 1985, we saw a 23-percent increase to more than 7 million in the number of publications ordered from CIC by American consumers. This trend has continued during the first part of this year, and we currently project an increase to approximately 7.5 million publications ordered in fiscal year 1986. These increases have occurred despite budget constraints being experienced by CIC as well as the Federal agencies supplying the publications.

We attribute the CIC's success of achieving more with less to the following factors: First, the American public appears to continue to place a lot of confidence in its government as a source of unbiased information. We see an eagerness on the part of citizens to request Federal information that is helpful in their daily lives.

Second, in a period of declining resources governmentwide, the CIC has been effective in obtaining private sector involvement with Federal agencies in the development and distribution of useful consumer information. Examples of this cooperation include jointly developed books distributed by CIC such as "Before You Say Yes—15 Questions To Turn Off an Investment Swindler" and "Your Home, Your Choice" which deals with housing alternatives for the elderly.

Third, CIC has continued to identify and, with subcommittee approval, to implement special marketing projects, thereby widening public awareness of the availability of Federal consumer information. In fiscal year 1985 alone, these projects resulted in requests from the public for more than 1 million publications.

Fourth, we are placing a greater emphasis on media promotions of CIC information. During the past year, we have met with hundreds of writers, editors, and broadcasters as part of this intensified promotion effort. As one example of success in this area, we project that CIC's fiscal year 1985 television public service announcements will receive donated air time nationwide totaling an annual value of $4 million.

Fifth, at a time when every budgetary decision is being carefully evaluated, Federal agencies still consider the CIC to be one of the most cost-effective methods for getting their information into the hands of the public on vital subjects such as social security, consumer credit, health, and safety. Agency participation in the CIC program has remained fairly consistent over the last several years.

In brief, these are some of the factors contributing to CIC accomplishments in the face of the budget challenges faced throughout Government. I am confident that we can continue to perform valuable and cost-effective service for Federal agencies, as well as for the public, in the years ahead.

I would be glad to answer any questions at this time.

[The statement follows:]

STATEMENT OF TERESA N. NASIF

Mr. Chairman and members of the subcommittee, I want to thank you for the opportunity to be here today to discuss the fiscal year 1987 budget request for the Consumer Information Center [CIC].

The CIC assists Federal agencies in their efforts to reach citizens nationwide with important information about their programs. The CIC promotes public awareness of Federal consumer information through publication of the quarterly Consumer Information Catalog and through various media services. In addition, the CIC coordinates distribution of Federal consumer publications from a centralized facility in Pueblo, Colo.

In fiscal year 1985, we saw a 23-percent increase—to more than 7 million—in the number of publications ordered from CIC by American consumers. This trend has continued during the first part of this year and we currently project an increase to approximately 7.5 million publications ordered in fiscal year 1986. These increases have occurred despite budget constraints being experienced by CIC as well as the Federal agencies supplying the publications.

We attribute the CIC success of achieving more with less to the following:

One. The American public appears to continue to place a lot of confidence in its Government as a source of unbiased information. We see an eagerness on the part of citizens to request Federal information that is helpful in their daily lives.

Two. In a period of declining resources governmentwide, the CIC has been effective in obtaining private sector involvement with Federal agencies in the development and distribution of useful consumer information. Examples of this cooperation include jointly developed books distributed by CIC such as "Before You Say Yes—15 Questions To Turn Off an Investment Swindler" and "Healthy Questions," which deal with selecting health care professionals.

Three. CIC has continued to identify and, with subcommittee staff approval, to implement special marketing projects, thereby widening public awareness of the availability of Federal consumer information. During fiscal year 1985, these projects resulted in requests from the public for more than 1 million publications.

Four. We are placing a greater emphasis on media promotions of CIC information. During the past year, we have met with hundreds of writers, editors, and broadcasters as part of this intensified promotion effort. As one example of success in this area, we project that CIC's fiscal year 1985 television public service announcements will receive donated air time nationwide totaling an annual value of $4 million.

Five. At a time when every budgetary decision is being carefully evaluated, Federal agencies still consider the CIC to be one of the most cost-effective methods for getting their information into the hands of the public on vital subjects such as social security, consumer credit, health, and safety. Participation in the CIC program has remained fairly consistent over the last several years.

In brief, these are some of the factors contributing to CIC accomplishments in the face of the budget challenges faced throughout Government. I am confident that we can continue to perform valuable and cost-effective service for Federal agencies as well as for the public in the years ahead. I would be glad to answer any questions at this time.

GRAMM-RUDMAN CUTS

Senator GARN. Thank you.

What is the impact of the Gramm-Rudman cuts on CIC for fiscal year 1986?

Ms. NASIF. In fiscal year 1986, the cut announced was $70,000, and we are applying it to the publication of the Consumer Information Catalog. We plan to decrease the volume printed and to lower contract specifications. We plan to increase our efforts in the media and marketing area to offset any detrimental impact that reduction of the catalog might have as far as orders coming into Pueblo.

Senator GARN. What would you estimate the impact would be if you had a 20-percent cut on your 1987 budget?

Ms. NASIF. It would amount to about $330,000, and it would mean reducing the catalog to about 10 million copies as compared to the 17 million copy level in fiscal year 1986. It would also mean having to cancel plans for our television public service advertising contract.

The advertising that we do on television is a very important promotional tool for us. Canceling that contract and cutting the number of catalogs will probably mean a cut of 50 percent in the number of publications ordered from the Pueblo facility.

Rather than 7.5 million publications, the original projection for 1987, we probably would experience only 4 million publications ordered from Pueblo in 1987.

Senator GARN. Are you doing any planning now in anticipation of that kind of a cut for 1987?

Ms. NASIF. The two contracts will be awarded later in the year, and because of the fact that there is some uncertainty about the Gramm-Rudman cuts, we are planning to wait until later in the fiscal year and at that time make the decision on reducing catalogs and awarding the advertising contract.

REVENUE FROM USER FEE

Senator GARN. The $1 user fee on catalog orders for more than one free publication was initiated at the end of fiscal year 1983. The establishment of the fee came after a 10-month study at the request of this subcommittee.

How much revenue has been generated from the user fee?

Ms. NASIF. Since fiscal year 1983, we have taken in nearly $800,000.

Senator GARN. How much do you anticipate for 1986 and 1987?

Ms. NASIF. We are projecting $300,000 in 1986 and, again, $300,000 in 1987.

Senator GARN. Are you doing anything to increase the amount of user fees collected?

Ms. NASIF. We are doing a couple of things. In fiscal year 1983, we had a major promotion in Family Circle magazine which generated about $48,000 in user fees. We are trying to repeat that this summer by working with Family Circle to put together a promotion that offers the public a variety of publications. The $1 fee would be applied for anyone sending in an order for any of the publications.

So that is one thing that we are doing. If it is successful, we would generate approximately $350,000 in 1986 rather than $300,000.

The other area that we are really interested in is trying to decrease the noncompliance rate. This involves customers who should but don't include the $1 when they order two or more free publications through the catalog. We are very interested in getting this noncompliance rate down from about 12 percent in fiscal year 1985.

In support of our efforts to get it down and at the suggestion of the staff of the subcommittee, we conducted a survey of customers who neglected to include the $1 to find out why did they not include the money. We also did some focus testing to test the clarity of our ordering instructions. These two efforts led us to redesign the ordering instructions in the catalog in the winter edition. As a result, we cut the noncompliance rate in half from 12 percent to 6 percent.

We are continuing to try to get that noncompliance rate down in order to collect as many dollars as possible.

PRIVATE SECTOR INVOLVEMENT IN PUBLICATIONS

Senator GARN. Could you discuss the potential for expanding the number of joint Government-private sector development of books for distribution through CIC?

Ms. NASIF. The process of coordinating joint publications is a rewarding, difficult, and challenging process. We feel very positive about it, but it means matching up a Federal agency with a private sector organization who, at the same point in time, share an interest and knowledge in the same subject; share the need to communicate the same message to an audience, who are willing to work together and who are willing to put resources together.

So it really is a challenging process to get all of these factors present in one situation. There are 17 publications that we have assisted with in one way or another over the last several years that were joint ventures. We think that the environment is positive for increasing that number.

The reason for my optimism is that more and more people are realizing the advantages of pooling their resources and there are more and more Federal agencies cooperating with private sector groups in a number of different areas. So I would say that it is very propitious to expand that number.

Senator GARN. What kind of investment would it take to expand that effort over the next few years? Do you have any idea?

Ms. NASIF. Yes. We have found that, generally, the success we have enjoyed in every area—whether it is agency or media—depends on personal contacts. We have seen that personal contact initiated repeatedly by CIC to keep all the parties motivated and working together is very important. The most useful additional investment that could be made to expedite the process would be to facilitate more travel by CIC to meet with potential corporate sponsors to persuade them, to show them the advantages of these projects. That kind of one-to-one personal meetings would likely increase the number of publications developed as joint efforts.

Senator GARN. Would you provide for the record a list of all the books developed in this manner and distributed by CIC? Include an estimate of the percentage distribution between Government and private sector investment.

[The information follows:]

GOVERNMENT - PRIVATE SECTOR PROJECTS

Publication costs include development, printing, and distribution. In 100% of the 17 publications that CIC has assisted with, both partners have contributed to the development costs. In 88% of the cases (15 out of 17), the corporate sponsor paid the printing costs. The corporate sponsor also underwrote the distribution costs for 44% of the free cooperative publications.

EXAMPLES OF GOVERNMENT - PRIVATE SECTOR PUBLICATIONS

1. Before You Say Yes - 15 Questions to Ask About Investments

   Commodity Futures Trading Commission (CFTC)
   National Futures Association (NFA)

2. Your Home, Your Choice

   Federal Trade Commission (FTC)
   American Association of Retired Persons (AARP)

3. Money Matters

   FTC
   AARP

4. How to Buy a Home Computer

   U.S. Office of Consumer Affairs (USOCA)
   Electronic Industries Association (EIA)

5. How to Buy a Telephone

   USOCA
   EIA

6. How to Choose and Use a Lawyer

   USOCA
   American Bar Assn. (ABA)

7. Mail Order Rights

   USOCA
   U.S. Postal Service (USPS)
   American Express

8. Talking About Turkey

   U.S. Department of Agriculture (USDA)
   Reynolds Metals Co.
   National Turkey Federation

9. How to Buy a Manufactured Home

FTC
Manufactured Housing Institute (MHI)

10. How to Write a Wrong

FTC
AARP

11. Your Guide to International Youth Exchange

The Consortium for International Citizen Exchange
The President's Council for International Youth Exchange

12. Consumer's Guide to Life Insurance

USDA
American Council of Life Insurance (ACLI)

13. Your Keys to Energy Efficiency

USOCA
Dept. of Energy (DOE)
Union 76 Oil Company

14. Consumers Guide to Telephone Service

Federal Communications Commission (FCC)
USOCA
Bell Atlantic

15. Direct Contacts for Consumers

USOCA
American Telephone & Telegraph (AT&T)

16. Healthy Questions

USOCA
AARP
FTC

17. Access Travel

USOCA
Allied Signal Corp.
U.S. Architectural and Transportation Barriers Compliance Board

SPECIAL MARKETING PROJECTS

Senator GARN. In your opening statement, you talked about special marketing projects which resulted in widespread requests for publications. The subcommittee approved the use of user fees for a number of special marketing projects. What has been the total cost thus far, and how would you evaluate the success of these programs?

Ms. NASIF. We have spent a total of about $250,000 on 11 special marketing projects. Because of the fact that these special marketing projects pulled in more orders, and therefore, more user fees, the net cost was about $100,000. In the process, we generated requests for 3.1 million publications that we probably otherwise would not have generated without the special efforts on our part.

We are very pleased with the marketing projects. We choose them very carefully and monitor them very carefully. We feel that the investment of $100,000 to generate orders for 3.1 million publications is a very good one.

PUBLIC SERVICE ADVERTISING

Senator GARN. As you mentioned, the subcommittee provided the $100,000 in the fiscal year 1986 budget to produce public television spots to increase public awareness of Federal publications. What is the status of your activity?

Ms. NASIF. We have awarded the contract, I am happy to report, and we have started the development of four public service spots for television. We plan to produce, duplicate, and release them by the end of the summer. This year, we decided to focus on health, one of the most requested and focused topics in the catalog. We are going to demonstrate the importance of our health publications and encourage people to send away for them.

We think that by focusing on one subject area, rather than describing the catalog as a whole, we might generate a larger response than we have in the past.

Senator GARN. What is your evaluation of the effectiveness of your fiscal year 1985 television public service announcements?

Ms. NASIF. We were very pleased with the results. As a direct result of the spots, more than 120,000 consumers have written to Pueblo to get a copy of the Consumer Information Catalog. Also, we were really pleased to receive more than $4 million worth of free donated air time. This is important to us, because it reinforces Pueblo in the mind of the public as a centralized place to get important helpful Federal information.

That kind of advertising helps to fuel the success of so many of our other promotions, because the public recognizes Pueblo when they see it in a magazine or elsewhere.

UNIT COSTS OF DISTRIBUTION

Senator GARN. What was the unit cost of distributing free publications from the GPO facility in Pueblo in 1985, and how does it compare with your estimates for 1986 and 1987?

Ms. NASIF. In fiscal year 1985, the actual unit cost was about 36 cents. We had been projecting that the unit cost in 1986 will be 41 cents. However, our bills from the Government Printing Office during the first quarter—and, of course, they charge us for the expenses of running the Pueblo facility—have actually been less than what we were expecting.

Therefore, when we do our midyear review in April to calculate agency bills for fiscal year 1986, we probably will be able to bring down that unit cost projection to under 40 cents. If that is the case, we will also revise downward the 43 cent figure in fiscal year 1987, as well.

Senator GARN. Thank you.

Senator D'Amato?

PREPARED STATEMENT

Senator D'AMATO. Mr. Chairman, I want to commend you for holding these hearings. I understand that these are the first hearings that have been held. I am going to ask that my statement be included in the record as if read in its entirety. I think I will have some questions of our next witness, but thank you, Mr. Chairman.

Senator GARN. Without objection, so ordered.

[The statement follows:]

STATEMENT OF SENATOR ALFONSE D'AMATO

Mr. Chairman, I am pleased to be here at today's hearing of the HUD/Independent Agencies Subcommittee. As we know, it is the first hearing this subcommittee has held on the fiscal year 1987 budget. I think this is significant, because today we will begin to set the tone for how we will deal with the fiscal constraints which are on all of our minds, while at the same time making it clear to the American people that we do not intend to destroy vital programs.

I would like to take this opportunity to comment briefly on the five agencies being considered today.

AMERICAN BATTLE MONUMENTS COMMISSION

The American Battle Monuments Commission is an agency which directly serves over 12.5 million visitors each year. In addition to providing suitable shrines to commemorate the achievements and sacrifices of our military forces, it provides vital services to relatives and friends of those buried in these military cemetery memorials.

Mr. Chairman, it is my understanding that the Commission's request for fiscal year 1987 is $11.6 million, an increase of about $1.3 million over last year's appropriation. I look forward to reviewing General Adam's testimony with regard to the Commission's plans for fiscal year 1987.

ARMY CEMETERIAL EXPENSES

I also look forward to reviewing the fiscal year 1987 request for Army cemeterial expenses. Certainly, this is an issue of vital importance to the relatives and friends of the 212,000 persons buried in Arlington National Cemetery and the Soldiers' and Airmen's Home National Cemetery, as well as visitors to the Tomb of the Unknown Soldier and the Memorial Amphitheater. I understand that the budget request for Army cemeterial expenses is $15.7 million, an increase of approximately $1.1 million over last year's appropriation.

CONSUMER INFORMATION CENTER

Today's testimony from the Consumer Information Center indicates that over fiscal year 1985 and the first part of fiscal year 1986, they have seen a dramatic increase—about 23 percent—in the number of publications ordered by American consumers. I am pleased to see this increase, because I think it is crucial that consumers take the time and trouble to become well informed on the safety, quality, and value of the products they purchase.

It is obvious that the Consumer Information Catalog, the primary publication of the Consumer Information Center, is serving a valuable purpose in promoting public awareness of Federal publications.

Mr. Chairman, I understand that the Consumer Information Center is charging user fees to offset some of the costs of providing consumer information, and I think we all appreciate the fact that this is easing the budget crunch. This year, the Consumer Information Center is requesting a $90,000 increase over its fiscal year 1986 adjusted appropriation of $1.2 million.

OFFICE OF CONSUMER AFFAIRS

The Office of Consumer Affairs also has shown what I think is a valuable, cost-effective way to serve American consumers through the distribution of the Consumer's Resource Handbook, which has been prepared with the assistance of 20 Federal agencies. It has received a quarter million requests for copies from congressional offices, and I note that the testimony today estimates that every time the handbook prevents a misdirected complaint, the taxpayer saves $8 to $10.

The budget proposal for the Office of Consumer Affairs represents a substantial decrease—80 percent. The proposal we are considering is six full-time positions and $400,000. This is a decrease of about $1.5 million from fiscal year 1986.

CONSUMER PRODUCT SAFETY COMMISSION

Finally, I think we are all aware of the importance of the Consumer Product Safety Commission. I think today we have to look carefully at the fiscal year 1987 budget proposal in this area to be sure we are adequately protecting the American people. In today's statement, the Commission has outlined its six priorities for 1987, including studies on child drownings, all-terrain vehicles, fire toxicity, poison prevention, riding mowers, and safety for elderly consumers. I think we can all agree these are crucial areas where the Federal Government can, and should, be involved in assuring safety. The fiscal year 1987 budget request for the Commission is $33 million, a reduction of about $1.5 million from the fiscal year 1986 appropriation.

I look forward to reviewing today's testimony in all of these areas to be sure we are making the most of our Federal dollars and to be certain that vital services are continued.

Thank you, Mr. Chairman.

SUBMITTED QUESTIONS

Senator GARN. Unless you have anything more you would like to say, we will have some additional five or six pages of questions for your response in writing.

Ms. NASIF. Thank you.

[The following questions were not asked at the hearing but were submitted for response for the record:]

Questions Submitted by Senator Garn

BUDGET JUSTIFICATION

Question: Would you please explain any major changes from existing operating practices that are contained in the FY 87 budget proposal?

Answer: The FY 87 budget proposal provides for the continuation of programs at levels prevailing in FY 1986. There are no plans for major changes from existing operating practices.

PUBLIC SERVICE ADVERTISING CAMPAIGNS

Question: What are your plans for Public Service Advertising Programs for the remainder of FY 86 and for FY 87?

Answer: In addition to producing and distributing television public service spots during FY 1986, we plan to contract for the design of a set of print public service advertisements which we will then print and distribute to weekly and daily newspapers and major consumer magazines. We will also be developing radio scripts in-house for release during late summer.

During FY 1987, we plan to repeat the same level of public service advertising as in FY 1986 by producing and releasing two waves of print messages, one set of radio scripts and one set of television psa's.

Question: Would you please provide, for the record, an annual distribution of the funds spent for Public Service Advertising campaigns for FY 80 through FY 85?

Answer: A summary of funds spent for public service advertising for FY 1980 through 1985 follows:

FY 1980	-	$153,127	Production and distribution of "Ocean-liner" television public service announcements, plus one set of print ads for newspapers and magazines.
FY 1981	-	-0-	
FY 1982	-	$ 7,500	Production of one set of print ads.
FY 1983	-	$ 54,142	Re-release of previously produced (1979) "Locomotive" television public service announcements, and production of one set of print ads.
FY 1984	-	$ 80,052	Production only of "Wild West" television public service announcements and two sets of print ads.

FY 1985 -	$ 24,877	Duplication and distribution of "Wild West" television public service announcements to tv stations nationwide, plus production of one set of print ads for newspapers and magazines.

LOW-PRICED PUBLICATION PROGRAM

Question: How many publications were distributed in FY 84 and FY 85 under the low-priced publication program where selected publications are made available to the public for 50 cents?

Answer: During FY 1984, CIC distributed more than 265,000 fifty-cent publications. This number rose in FY 1985 to over 430,000 publications, an increase of 62%.

Question: What are your predictions for FY 86 and FY 87 for this program based on the requested budget?

Answer: We currently project modest increases in FY 1986 and FY 1987 to 500,000 and 600,000 respectively.

INTERACTION WITH OTHER FEDERAL AGENCIES

Question: Would you please provide two separate tables indicating the Federal agencies that have been added to, or dropped from,. the CIC Agency Liaison Program and the CIC Free Distribution Program during FY 85 and FY 86 to date?

Answer: Table I lists all of the Federal agencies where CIC maintains an active liaison program. We continue these contacts and provide services, such as sharing the results of consumer surveys, even when an agency does not currently have any publications in the Catalog.

Table II lists all the agencies which have in recent years distributed free publications through CIC.

THE CIC AGENCY LIAISON PROGRAM
(FY 1985 - FY 1986)

Agencies	FY 1985	FY 1986
ACTION	x	x
Agriculture	x	x
Commerce	x	x
*Civil Aeronautics Board	-	-
Commodity Futures Trading Comm.	x	x
Congressional Committees	x	x
Consumer Product Safety Comm.	x	x
Defense	x	x
Education	x	x
Dept. of Energy	x	x
Environmental Protection Agency	x	x
Fed'l Deposit Insurance Corp.	x	x
Fed'l Emergency Mgmt. Agency	x	x
Federal Home Loan Bank Board	x	x
Federal Reserve Board	x	x
Federal Trade Commission	x	x
Food & Drug Administration	x	x
General Services Administration	x	x
Government Printing Office	x	x
Health and Human Services	x	x
Housing and Urban Development	x	x
Interior	x	x
Justice	x	x
Labor	x	x
Library of Congress	x	x
Nat'l Aeronautics and Space Admin.	x	x
Nat'l Institutes of Health	x	x
Nat'l Science Foundation	x	x
Postal Service	x	x
Pres. Council for Int'l Yth. Ex.	x	x
Pres. Council on Phy. Ftns. & Spts.	x	x
Securities & Exchange Comm.	x	x
**Selective Service System	-	-
Small Business Administration	x	x
Smithsonian	x	x
Social Security Administration	x	x
State	x	x
Transportation	x	x
Treasury	x	x

U.S. Information Agency	x	x
U.S. Office of Consumer Affairs	x	x
Veterans Administration	x	x

*CAB was dissolved in FY 1985 and its function is now handled by DOT.
**Selective Service worked with CIC on a special one-time draft registration project during FY 1984.

II

Consumer Information Center Free Distribution Program Participants

Organization	FY 1985	FY 1986
Agriculture	X	X
Commerce	0	0
Commodity Futures Trading Comm.	X	X
Consumer Product Safety Commission	0	0
Education	X	X
Energy	X	X
Environmental Protection Agency	0	0
Fed. Deposit Insurance Corp.	0	0
Federal Emergency Mgmt. Agency	X	X
Federal Reserve Board	X	X
Federal Trade Commission	X	X
Food and Drug Administration	X	X
General Services Administration	X	X
Government Printing Office	X	X
Health and Human Services	X	X
Housing and Urban Development	X	X
Interior	X	X
Justice	0	0
Labor	X	X
Library of Congress	0	0
National Science Foundation	X	X
Postal Service	X	X
Pres. Council on In't Youth Exchange	X	X
Securities and Exchange Comm.	0	0
Selective Service System	0	0
Small Business Administration	X	X
Transportation	0	0
Treasury	0	0
U.S. Information Agency	X	X
U.S. Office of Consumer Affairs	X	X
Veterans Administration	0	0

PAYMENTS TO THE GOVERNMENT PRINTING OFFICE

Question: The largest item in your budget is Object Class 25, Other Services. Almost 90% of this category is the $2,595,000 provided for payments to the Government Printing Office (GPO) for the cost of distributing consumer information publications.

Last year, we asked you to provide, for the record, a brief explanation of the relationship between Federal agencies sponsoring a publication, CIC and GPO, illustrating the transfer of funds between these organizations.

Would you please update that description and provide it for the record again this year?

Answer: Agencies that wish to participate in the CIC's free distribution program must provide sufficient quantities of the publication to meet projected demand and must pay CIC for all costs associated with the distribution of these publications. CIC subcontracts with the U.S. Government Printing Office to provide order processing services through its facility in Pueblo, Colorado. CIC is billed by GPO for these services.

In April of each year, CIC conducts a review of each agency's actual distribution for the previous four quarters and projects the distribution levels for the FY beginning 17 months later. In consultation with GPO, the cost of supporting these levels of distribution is calculated and all of this information is provided to the Agency for formulating their budget request.

As part of this mid-year analysis, CIC also reviews its previous projections for the current fiscal year and the subsequent fiscal year and makes revisions as needed.

As far as the actual transfer of funds, at the beginning of each fiscal year, CIC bills agencies one-half of the most current cost projection for that fiscal year. The following April, CIC calculates the final bill for the year based on a review of the distribution level of the agency during the first 6 months, and a projection of activity for the second 6 months. Monies received from the agencies are deposited into the CIC Fund and are used to pay the monthly bills sent by GPO.

CIC closely monitors the operation of the GPO distribution facility and the monthly billings to insure that all services billed are provided at the lowest possible cost.

OCA CONSUMERS RESOURCE HANDBOOK

Question: The Office of Consumer Affairs (OCA) supports your distribution of the Consumer Resource Handbook. It is one of the most popular publications that CIC distributes.

What would be the result if OCA funding for the Handbook were not provided in FY 87?

Answer: We project that we will have approximately 500,000 copies of the Consumers Resource Handbook in Pueblo at the beginning of FY 1987. Distribution costs for this amount would be approximately $215,000. If USOCA funding were not available, we would have no way to provide copies in response to the large volume of requests that we are likely to still be receiving in FY 1987.

Even if we were to curtail all CIC Catalog and media promotion during the latter part of FY 1986, we must remember that the availability of this publication has been promoted to the public over the last several years, and that there are a multitude of publications, resource directories, and media services that will still be out there listing it as available from Pueblo. There is no way we can completely stop this ongoing promotion and the consumer orders it will continue to generate for the Handbook. The impact of receiving orders for a publication which we cannot distribute includes:

- extra labor and postage costs in Pueblo to inform consumers of the unavailability of the publication.

- possible consumer ill will towards the government in general, and CIC and USOCA in particular. The other two ways that CIC distributes publications are through the 50¢ program and the regular GPO sales program. The 50¢ program is designed for small brochures which are not appropriate for the regular GPO sales program which has a minimum sales price of $1.00. It is likely that GPO would not accept the Consumers Resource Handbook into its 50¢ program because of its size and weight, but would instead place it in its regular sales program.

It should be pointed out that even if the Consumers Resource Handbook were eventually placed in the GPO sales program and offered to the public as a charge item, it could be as long as one year before we stopped receiving requests for it as a free publication.

The Consumers Resource Handbook is an invaluable publication because it not only helps consumers, but it also helps government by cutting its costs associated with handling, resolving, and referring consumer complaints. It would be in the best interests of the government to continue providing it without charge to the public.

JUSTIFICATION

Senator GARN. We have received your justification and it will be placed in the hearing record at this point.

Ms. NASIF. Thank you.

[The justification follows:]

CONSUMER INFORMATION CENTER FUND
JUSTIFICATION FOR APPROPRIATED FUNDS

Summary Reconciliation of 1987 Estimate to Comparable Amounts for 1986

1985	Appropriation	$1,149,000
	Increase	
	Funding for Comprehensive Public Service Campaign	+100,000
	Decrease	
	Reduction of 1.1 Percent Effected by P.L. 99-160	-13,739
1986	Total	$1,235,261
	Increase	
	Miscellaneous Expenses	+36,739
1987	Total	$1,272,000

SUMMARY OF BUDGET AUTHORITY

(In thousands of dollars)

	1985 Actual	1986 Estimate	1987 Estimate
Enacted/Requested Budget Authority	$1,149	$1,235	$1,272
Reduction of Budget Authority pursuant to P.L. 99-177		-53	
Total Budget Authority	$1,149	$1,182	$1,272

1986 Appropriation	$1,235,261
Change	+36,739
1987 Estimate	$1,272,000

GENERAL STATEMENT

The Consumer Information Center (CIC) was established in 1970 to: (1) help Federal departments and agencies release consumer information they wish to bring to the public's attention and (2) assure public awareness of and access to this information. To carry out these mandates, CIC has an agency liaison program to identify and assist in the development of Federal consumer information; it publishes the Consumer Information Catalog and has a media and marketing program to promote the information; and it contracts with an order processing facility in Pueblo, Colorado in order to distribute the information.

Public Law 98-63 established a revolving fund for the CIC. Under this fund, CIC activities are financed from the following: Annual appropriations from the general funds of the Treasury, reimbursements from agencies for distribution of publications, user fees collected from the public, and any other income incident to CIC activities. All are available as authorized in appropriation acts without regard to fiscal year limitations.

APPROPRIATION LANGUAGE

For necessary expenses of the Consumer Information Center, including services authorized by 5 U.S.C. 3109, ($1,249,000,) $1,272,000, to be deposited into the Consumer Information Center Fund: Provided, That the appropriations, revenues and collections deposited into the fund shall be available for necessary expenses of Consumer Information Center activities in the aggregate amount of $5,200,000. Administrative expenses of the Consumer Information Center in fiscal year (1986) 1987 shall not exceed ($1,631,000.) $1,654,000. Appropriations, revenues and collections accruing to this fund during fiscal year (1986) 1987 in excess of $5,200,000 shall remain in the fund and shall not be available for expenditure except as authorized in appropriation Acts.

(Sec. 416. Notwithstanding any other provision of this Act, amounts otherwise provided by this Act for the following accounts and activities are reduced by the following amounts:

GENERAL SERVICES ADMINISTRATION

"Consumer information center (appropriation)", $13,739;
"Consumer information center (limitation on administrative expenses)", $17,941;)

JUSTIFICATION

Current Activities

Federal agencies develop important consumer information as a direct result of carrying out their program activities. The Consumer Information Center alerts the public about the availability of this information and responds to requests for the information. In the process, the CIC represents not only a cost-effective channel for Federal agencies in their efforts to keep the public informed on important issues, but also a cost-effective source of information for American consumers. The quarterly Consumer Information Catalog is the primary tool for increasing public awareness of Federal consumer information. It is a 16-page descriptive listing of more than 200 free and sales Federal publications of consumer interest on a wide variety of subjects. During FY 1986, approximately 17 million Catalogs will be distributed through a variety of channels and in response to individual requests generated through the media. The distribution channels include Members of Congress; elementary through graduate school educators; libraries; local, state, and national consumer organizations; non-profit organizations with active consumer programs such as credit unions, community groups, professional associations, and labor unions; and Federal facilities with heavy visitor traffic.

The following provides highlights of CIC accomplishments in its three major program areas: agency liaison, media and marketing, and distribution.

AGENCY LIAISON

The agency liaison program is the basis for identifying and developing the publications which make up the Consumer Information Catalog. Every program area revolves around this important function and depends on its success. In the agency liaison process, CIC works closely with program and information staff members in more than 30 Federal agencies to ascertain their information dissemination needs and to develop strategies to meet those needs. CIC agency liaison staff members maintain regular contact with Federal officials to learn of programs and promotional plans and suggest ways to attain goals. They provide editorial review of new and revised publications; develop publication distribution plans in line with available agency resources; and identify appropriate private sector partners to work with agencies on cooperative projects. In addition, staff members coordinate marketing and promotion plans for publications in the CIC program; provide evaluation to assist agencies in assessing the effectiveness of publications and better address consumer needs when revising and updating publications; provide newsclips and other feedback on the success of media promotion activities to agencies on a regular basis; and regularly report inventory and distribution data to participating agencies.

The FY 1985 agency liaison program was highlighted by CIC's active involvement in cooperative publication efforts between Federal agencies and the private sector. The following examples illustrate CIC accomplishments in the agency liaison area:

. Since financial issues have become increasingly complex, the CIC has stepped up efforts to identify and offer publications relating to sound money management. In 1985 the CIC began distribution of two publications intended to help consumers with their financial affairs. The Consumer Handbook on Adjustable Rate Mortgages was developed by the Federal Reserve Board and more than 20 Federal agencies, councils, and trade associations. Adjustable rate mortgages or "ARMs" are a recent, and sometimes confusing, alternative in home financing. Compared to fixed-rate mortgages, ARMs present consumers with unfamiliar and complicated options concerning changing payments and terms. The Handbook helps consumers understand the basic features, advantages, risks, and terminology associated with ARMs. The second publication, Before You Say Yes--15 Questions to Turn Off an Investment Swindler, was published by the National Futures Association and the Commodity Futures Trading Commission. Investment swindlers, generally boiler room operators, bilk unwary consumers out of an estimated $200,000,000 annually. This publication provides questions designed to prevent consumers from being taken in by fraudulent investment schemes, especially those involving commodity futures.

. In 1985, the Human Nutrition Information Service (HNIS) of the U.S. Department of Agriculture and the Department of Health and Human Services developed the second edition of Nutrition and Your Health: Dietary Guidelines for Americans. This is an update of the original guidelines released by USDA/HHS in 1980 and gives American consumers advice on food selection and eating habits based on the latest nutrition research. CIC worked closely with HNIS to develop a comprehensive distribution plan for the Dietary Guidelines and the CIC facility in Pueblo, Colorado was designated as the exclusive distribution agent. USDA provided copies and funding for the free distribution of 800,000 copies in FY 1986 -- half of those to go out in response to requests for single copies and half to go out in bulk to schools, consumer groups, and other appropriate outlets requesting them. One of the special promotions already undertaken by CIC was to offer the Dietary Guidelines in an insert mailed out to more than 3 million recipients of VA benefit checks in November 1985. As of the end of December 1985, the CIC had sent out more than 267,000 copies of Dietary Guidelines in response to consumer requests.

. CIC is continuing to work closely with the Food and Drug Administration (FDA) to identify publication topics which will help the consumer choose a safe and healthy lifestyle. Some of the many topics that FDA has provided to the public through CIC during FY 1985 include the unique nutritional needs of women (including the danger of osteoporosis when women fail to get enough calcium), irradiation of food, diet and the elderly, asthma, weight reduction, ulcers, artificial sweeteners, and herpes.

. Late in 1985, the President's bout with colon cancer focused the nation's attention on this little-discussed disease. CIC, which was already distributing both Cancer Prevention and The Colon, prepared a special news release for the health press offering tips from these booklets and encouraging the public to send for free copies.

. A surge in elementary school enrollment has, in turn, increased interest in education topics. CIC worked with the National Institute of Education to develop and make available to the public a series of books on how to help your child do better in a variety of school subjects. CIC continues to be a major source of information on Federal financial aid for students, including specific higher education opportunities for minorities and women.

. Since safety continues to be a priority concern, CIC worked with the Consumer Product Safety Commission to promote use of Safety for Older Consumers, an extensive checklist for finding and correcting fire and accident hazards around the home. The Safe Food Book helps consumers identify and avoid the common causes of food poisoning. CIC helped the Department of Agriculture make this booklet easy for consumers to get and to understand. CIC also joined the nationwide effort to save missing children by working with ACTION on the Child Safety Program Hardbook, a guide for parents.

. To help consumers adjust to the breakup of AT&T and to make informed choices about long distance service, CIC coordinated the development and distribution of A Consumer's Guide to Telephone Service jointly with the Bell Atlantic Companies, the U.S. Office of Consumer Affairs (USOCA), the Federal Communications Commission (FCC), and several independent consumer groups and trade associations. This free publication provides to consumers information on developments and changes in local and long distance telephone service and helps consumers select the most cost-effective long distance carrier to meet their particular needs.

. CIC worked to develop several booklets especially for senior citizens who comprise an increasingly larger proportion of CIC's audience. Healthy Questions was published and distributed by the American Association of Retired Persons (AARP), the Federal Trade Commission (FTC), and the USOCA. This publication, directed particularly at citizens over 50 years of age, suggests how to select and make the best use of health care professionals including physicians, dentists, vision care specialists, and pharmacists. It also tells what to do about complaints regarding health care practitioners. Your Home, Your Choice describes numerous housing options for senior citizens and pays particular attention to the special needs of seniors and their families. Published by the AARP and the FTC, the booklet also includes a checklist for senior citizens and their families to help them decide on the best housing options.

During FY 1985, CIC's agency liaison staff identified and obtained 59 publications for listing in the Catalog and distribution through the CIC.

MEDIA AND MARKETING

CIC's media and marketing programs provide important Federal information to the public. At the same time they promote the availability of the Consumer Information Catalog and the specific Federal consumer publications listed in the Catalog. CIC works with radio, television, newspapers, magazines, and newsletters to let the public know about topics as varied as health care, financial planning, Federal research and benefits, and other Federal programs that are of vital importance. As a public service, the media make this information available to consumers at no cost to the government. Thus, with minimal resources, the CIC is able to reach millions of Americans in a cost-effective manner. CIC places its message with the media in the following ways:

- Feature scripts: The CIC provides feature scripts, "Federal Consumer Focus" (FCF), regularly to radio and television stations upon request. These scripts are used as a basis for call-in shows, for consumer spots, as disc jockey fill-in, or for consumer news. These scripts are an invaluable resource for consumers who rely heavily on radio and television broadcasts for daily information.

- Information releases: Upon request, the CIC provides to wire services, newspapers, magazines, and newsletters the feature release service, "New for Consumers" (NFC). These releases can generate tremendous public demand for specific publications. For example, Parade, with its circulation of 29,000,000, has mentioned booklets from the Catalog numerous times during FY 1985 generating orders for approximately 250,000 publications as a result. NFC releases have also been the source for regular items in U.S. News and World Report, Changing Times, Family Circle, Modern Maturity, Ladies' Home Journal, and Business Week, as well as in many other magazines. The releases also appear regularly in large daily and small weekly newspapers throughout the country, in membership and subscriber newsletters, and -- this year for the first time on a large scale -- in employee house organs from firms such as TWA, Shopwell, Inc., Niagara Mohawk Power Co., LA-Z-Boy Chair Company, Northwest Pipeline Corp., and many others. In addition, Associated Press, United Press International, and syndicated columnists have used the releases as the basis for numerous articles through FY 1985. NFC's have appeared in newspapers such as the Saginaw (MI) News, the Bloomington (IL) Pantagraph, the Salt Lake City (UT) Tribune and Deseret News, the Cleveland (OH) Plain Dealer, the Minneapolis (MN) Star and Tribune, and the New York (NY) Times.

. Meetings with major print media: During FY 1985, CIC staff members met with more than 150 consumer writers and editors of major magazines, newspapers, and wire services to brief them on the availability of the Catalog and specific Federal publications that would be of particular interest to their readers, and on CIC's other media services. As a result of this direct marketing, CIC has succeeded in obtaining feature mentions in numerous magazines and news syndicates. For example, CIC had publications mentioned in both the "Ann Landers" and "Dear Abby" syndicated columns resulting in orders for almost 300,000 booklets from their readers. Following staff visits with a number of writers at USA Today, CIC has had a series of booklets mentioned in the "Today's Tip-Off" feature in both the Lifestyle and Business sections.

CIC also participated with the U.S. Department of Agriculture and the Food and Drug Administration in regional meetings with food editors around the country. As a result of these meetings, along with the CIC's regular meetings with consumer writers, calls to CIC's Media Hotline requesting a variety of information have increased. These calls range from checking about the availability of publications to complex questions requiring extensive research. For instance, a recent caller from Money magazine wanted information on personal loan rates in various areas of the country. Both the Federal Reserve Board and the Bureau of Labor Statistics were able to provide information that was used in the article. Another reporter was doing a story on ordering food through the mail and wanted to know whether there were any Federal rules that applied. CIC was able to refer the writer to the booklet, Mail Order Rights, and to provide the names of experts at the Federal Trade Commission and the Postal Service who could provide more detailed answers.

. Public service materials: In addition to its ongoing program of information releases and briefings for the media, the CIC also develops special public service advertisements for television, radio, and the print media to inform the public about the availability of the Catalog. This past year CIC developed and released a new series of television public service announcements with a circa 1890's Wild West theme, depicting the arrival of the Catalog from Pueblo, Colorado to a frontier town. The campaign was received enthusiastically by station public service directors. In response to their requests, CIC sent out more than 800 tapes of the spots. Based on monitoring during the six months following release of the spots, CIC estimates that the annual total value of donated air time will be approximately $4 million.

As an outgrowth of ongoing work with the print media, CIC designed and carried out a new project to make the Catalog even more readily available to the public. In March 1985, the Portsmouth Herald newspaper of Portsmouth, New Hampshire requested CIC assistance in reprinting the Catalog as a special advertising supplement. CIC provided camera-ready copy of the current Catalog which was specially coded to measure reader response. Advertisers and readers both responded so positively that CIC acquired 10,000 copies of the reprint and mailed them to all daily and weekly newspapers across the country. Along with the reprint, CIC enclosed a letter to the advertising manager of each paper suggesting that they, too, might want to reprint an edition of the Catalog. As of the end of December 1985, 45 daily newspapers and 61 weekly newspapers with a combined circulation of more than 1.8 million have reprinted or have agreed to reprint an edition of the Catalog.

Cooperative Marketing Projects with Other Federal Agencies

During FY 1985, CIC continued its successful practice of offering copies of the Catalog to beneficiaries of other government programs. With the cooperation of the Internal Revenue Service (IRS), CIC printed 6.2 million flyers promoting the Catalog which the IRS inserted into consumer requests for supplemental tax forms. As a result of this project, consumers used Catalogs to order more than 525,000 additional publications. CIC is still receiving approximately 2,000-3,000 requests each week. The IRS has been so pleased with this project that the project is being repeated in FY 1986.

FY 1985 also saw the repeat of a successful FY 1984 cooperative project between the CIC, the Veterans Administration (VA), and the Treasury Department to make CIC publications available to veterans. An insert printed with user fee funds was placed in the November 1985 compensation, pension, and educational benefit checks going to approximately 3.4 million veterans. In addition to containing a program message from the VA, the insert offered several Federal publications and the Catalog. As a result of this promotion, veterans requested approximately 350,000 publications.

DISTRIBUTION

The CIC distribution program involves the publishing and distribution of the quarterly Consumer Information Catalog. The distribution program also directs the order fulfillment contracted out to the U.S. Government Printing Office (GPO) facility in Pueblo, Colorado. FY 1985 highlights of the CIC distribution program are as follows:

The Catalog is a quarterly listing of more than 200 free and moderately priced Federal consumer publications. During FY 1985, approximately 16 million Catalogs were distributed and the average number of publications listed per quarterly edition was 224. The number of free titles averaged 46 percent with low-priced (50¢) and regular sales publications making up 21 and 33 percent of the total respectively. The continued success of the low-priced (50¢) publication program, along with significant price reductions on regular GPO sales publications, dropped the average unit cost of all sales publications in the Catalog by 46% during FY 1985 from $2.40 to $1.30.

CIC efforts to improve the Catalog's layout, design, and ordering instructions continued through FY 1985. CIC has established a system to provide feedback on overall consumer response to revisions made in different Catalog editions. Two focus test groups on the Catalog were conducted to identify problem areas and suggest possible solutions. Also, a survey of consumers who had not followed the instructions properly was made to provide additional information. Improvements have led to increased Catalog usage as well as receipt of order mail in a more easily processable format. This results in savings through reduced handling costs and speeds the return of orders to consumers. The winter 1985-86 Catalog and the spring 1986 Catalog incorporate many of the changes suggested by the above studies. Additionally in the spring 1986 Catalog, CIC has included return envelopes (not postage-paid) in 1,000,000 copies and will maintain comparison counts to determine whether the inclusion of envelopes is cost-effective in terms of increased orders generated.

During FY 1985, consumers requested over 7 million free and sales publications from CIC. Distribution of free publications generated $292,000 in user fee revenue; distribution of GPO sales documents generated revenue of more than $1.5 million.

PLANS FOR FY 1987

The requested budget authority of $1,272,000 for FY 1987 includes an increase of $36,739 primarily to cover the higher costs anticipated for contracts under Printing and Other Services. It will enable the CIC to continue programs at levels prevailing during FY 1986. Program activities will concentrate on identifying new markets and the most cost-effective distribution channels for Federal consumer information. These efforts will include a CIC public service advertising campaign similar to the one carried out in FY 1986. Also, the CIC will continue to work closely with Federal agencies and private organizations on publication priorities, to compile and distribute the Consumer Information Catalog, and to monitor the operation of the GPO distribution facility in Pueblo, Colorado. The CIC's primary focus will continue to be on the refinement and improvement of the activities it performs.

CONSUMER INFORMATION CENTER FUND

POSITIONS BY GRADE AND AVERAGE EMPLOYMENT ADMINISTRATIVE EXPENSES

	Actual, 1985			Program, 1986			Request, 1987		
Grade	C.O.	Field	Total	C.O.	Field	Total	C.O.	Field	Total
GS/GM-15	1	-	1	1	-	1	1	-	1
14	2	-	2	2	-	2	2	-	2
13	4	-	4	5	-	5	5	-	5
12	3	-	3	2	-	2	2	-	2
11	1	-	1	2	-	2	3	-	3
9	1	-	1	1	-	1	3	-	3
7	3	-	3	4	-	4	1	-	1
6	2	-	2	2	-	2	2	-	2
5	2	-	2	-	-	-	-	-	-
Permanent Positions	19	-	19	19	-	19	19	-	19
Avg. Empl: Permanent	19	-	19	19	-	19	19	-	19
Other	1	-	1	1	-	1	1	-	1
TOTAL	20	-	20	20	-	20	20	-	20

CLASSIFICATION BY OBJECTS

	Actual, 1985	Program, 1986	Request, 1987
Personnel compensation: Central office	$585,786	$629,000	$621,000
Field	-	-	-
11 Total personnel compensation	$585,786	$629,000	$621,000
Other Objects			
12 Personnel benefits	79,046	75,000	73,000
13 Benefits for former personnel	-	-	-
21 Travel	17,334	19,000	19,000
Travel (motor pool)	87	-	-
22 Transportation of things	35,036	42,000	42,000
23 Rents and utility services	7,927	6,000	9,000
Payment to Federal Buildings Fund	63,458	80,000	77,000
Communication services	56,430	60,000	60,000
24 Printing and reproduction	378,816	468,059	506,000
25 Other services	92,507	220,000	233,000
26 Supplies and materials	4,695	4,000	4,000
31 Equipment	14,088	10,000	10,000
32 Lands and structures	-	-	-
Total Other Objects	$749,424	$984,059	$ 1,033,000
Total Obligations	$ 1,335,210	$ 1,613,059	$ 1,654,000
Position Data			
Average salary, GS positions	$31,605	$33,045	$34,320
Average grade, GS positions	10.21	10.68	11.11

CONSUMER INFORMATION CENTER FUND

POSITIONS BY GRADE AND AVERAGE EMPLOYMENT PRIOR YEAR ADJUSTMENTS

	Actual,			Program,			Request,		
Grade	C.O.	Field	Total	C.O.	Field	Total	C.O.	Field	Total
Permanent Positions									
Avg. Empl: Permanent Other									
TOTAL									

CLASSIFICATION BY OBJECTS

	Actual, 1985	Program,	Request,
Personnel compensation: Central office	$ 2,179		
Field	-		
11 Total personnel compensation	$ 2,179		
Other Objects			
12 Personnel benefits	206		
13 Benefits for former personnel	-		
21 Travel	-207		
Travel (motor pool)	-		
22 Transportation of things	-2,551		
23 Rents and utility services	-		
Payment to Federal Buildings Fund	-		
Communication services	210		
24 Printing and reproduction	21,754		
25 Other services	-2,952		
26 Supplies and materials	-272		
31 Equipment	-		
32 Lands and structures	-		
Total Other Objects	$ 16,188		
Total Obligations	$ 18,367		
Position Data			
Average salary, GS positions			
Average grade, GS positions			

CONSUMER INFORMATION CENTER FUND

POSITIONS BY GRADE AND AVERAGE EMPLOYMENT PUBLICATIONS DISTRIBUTION

	Actual,			Program,			Request,		
Grade	C.O.	Field	Total	C.O.	Field	Total	C.O.	Field	Total
Permanent Positions									
Avg. Empl: Permanent									
Other									
TOTAL									

CLASSIFICATION BY OBJECTS

	Actual, 1985	Program, 1986	Request, 1987
Personnel compensation: Central office			
Field			
11 Total personnel compensation			
Other Objects			
12 Personnel benefits			
13 Benefits for former personnel			
21 Travel			
Travel (motor pool)			
22 Transportation of things			
23 Rents and utility services			
Payment to Federal Buildings Fund			
Communication services			
24 Printing and reproduction			
25 Other services	$ 2,220,000	$ 2,459,000	$ 2,595,000
26 Supplies and materials			
31 Equipment			
32 Lands and structures			
Total Other Objects	$ 2,220,000	$ 2,459,000	$ 2,595,000
Total Obligations	$ 2,220,000	$ 2,459,000	$ 2,595,000
Position Data			
Average salary, GS positions			
Average grade, GS positions			

CONSUMER INFORMATION CENTER FUND

POSITIONS BY GRADE AND AVERAGE EMPLOYMENT SPECIAL PROGRAMS

Grade	Actual, C.O.	Field	Total	Program, C.O.	Field	Total	Request, C.O.	Field	Total
Permanent Positions									
Avg. Empl: Permanent Other									
TOTAL									

CLASSIFICATION BY OBJECTS

	Actual, 1985	Program, 1986	Request, 1987
Personnel compensation: Central office			
Field			
11 Total personnel compensation			
Other Objects			
12 Personnel benefits			
13 Benefits for former personnel			
21 Travel			
Travel (motor pool)			
22 Transportation of things			
23 Rents and utility services			
Payment to Federal Buildings Fund			
Communication services			
24 Printing and reproduction	$2,908		
25 Other services	68,128	100,000	100,000
26 Supplies and materials			
31 Equipment			
32 Lands and structures			
Total Other Objects	$71,036	$ 100,000	$ 100,000
Total Obligations	$71,036	$ 100,000	$ 100,000
Position Data			
Average salary, GS positions			
Average grade, GS positions			

CONSUMER INFORMATION CENTER FUND

POSITIONS BY GRADE AND AVERAGE EMPLOYMENT

TOTAL

	Actual, 1985			Program, 1986			Request, 1987		
Grade	C.O.	Field	Total	C.O.	Field	Total	C.O.	Field	Total
GS/GM-15	1	-	1	1	-	1	1	-	1
14	2	-	2	2	-	2	2	-	2
13	4	-	4	5	-	5	5	-	5
12	3	-	3	2	-	2	2	-	2
11	1	-	1	2	-	2	2	-	2
9	1	-	1	1	-	1	3	-	3
7	3	-	3	4	-	4	1	-	1
6	2	-	2	2	-	2	2	-	2
5	2	-	2	-	-	-	-	-	-
Permanent Positions	19	-	19	19	-	19	19	-	19
Avg. Empl: Permanent	19	-	19	19	-	19	19	-	19
Other	1	-	1	1	-	1	1	-	1
TOTAL	20	-	20	20	-	20	20	-	20

CLASSIFICATION BY OBJECTS

	Actual, 1985	Program, 1986	Request, 1987
Personnel compensation: Central office	$587,965	$629,000	$621,000
Field	-	-	-
11 Total personnel compensation	$587,965	$629,000	$621,000
Other Objects			
12 Personnel benefits	79,252	75,000	73,000
13 Benefits for former personnel	-	-	-
21 Travel	17,127	19,000	19,000
Travel (motor pool)	87	-	-
22 Transportation of things	32,485	42,000	42,000
23 Rents and utility services	7,927	6,000	9,000
Payment to Federal Buildings Fund	63,458	80,000	77,000
Communication services	56,640	60,000	60,000
24 Printing and reproduction	403,478	468,059	506,000
25 Other services	2,377,683	2,779,000	2,928,000
26 Supplies and materials	4,423	4,000	4,000
31 Equipment	14,088	10,000	10,000
32 Lands and structures	-	-	-
Total Other Objects	$ 3,056,648	$ 3,543,059	$ 3,728,000
Total Obligations	$ 3,644,613	$ 4,172,059	$ 4,349,000
Position Data			
Average salary, GS positions	$31,605	$33,045	$34,320
Average grade, GS positions	10.21	10.68	11.11

CONSUMER INFORMATION CENTER

EXPLANATION OF DISTRIBUTION BY OBJECT CLASS

11 Personnel Compensation - $621,000: Support 20 FTE, all in the Central Office.

12 Employee Benefits - $73,000: $43,000 for retirement contributions; $18,000 for health benefits; $11,000 for FICA; and $1,000 for group life insurance.

21 Travel and Transportation of Persons - $19,000: For travel by CIC staff members in promoting the Catalog and services offered to the public.

22 Transportation of Things - $42,000: For transporting Catalogs from the printing company to Washington, DC, the Colorado distribution center, and Congressional offices.

23 Rent, Communications, and Utilities - $146,000: $43,000 for postage; $77,000 for payments to the Federal Buildings Fund for office space; and $26,000 for telephone and equipment user charges.

24 Printing and Reproduction - $506,000: $471,000 for printing Catalogs; $10,000 for printing script material for radio and television stations; and $25,000 for miscellaneous printing.

25 Other Services - $2,928,000: $160,000 for preparation and distribution of public service materials for radio, television, and print media; $100,000 for special projects promoting the Catalog; $10,000 for equipment maintenance; $30,000 for computer time; $10,000 for Spanish translating service; $23,000 for miscellaneous expenses; and $2,595,000 for payments to the Government Printing Office for the cost of distributing consumer information publications.

26 Supplies and Materials - $4,000: For normal administrative supplies and materials.

31 Equipment - $10,000: For the purchase of office automation equipment.

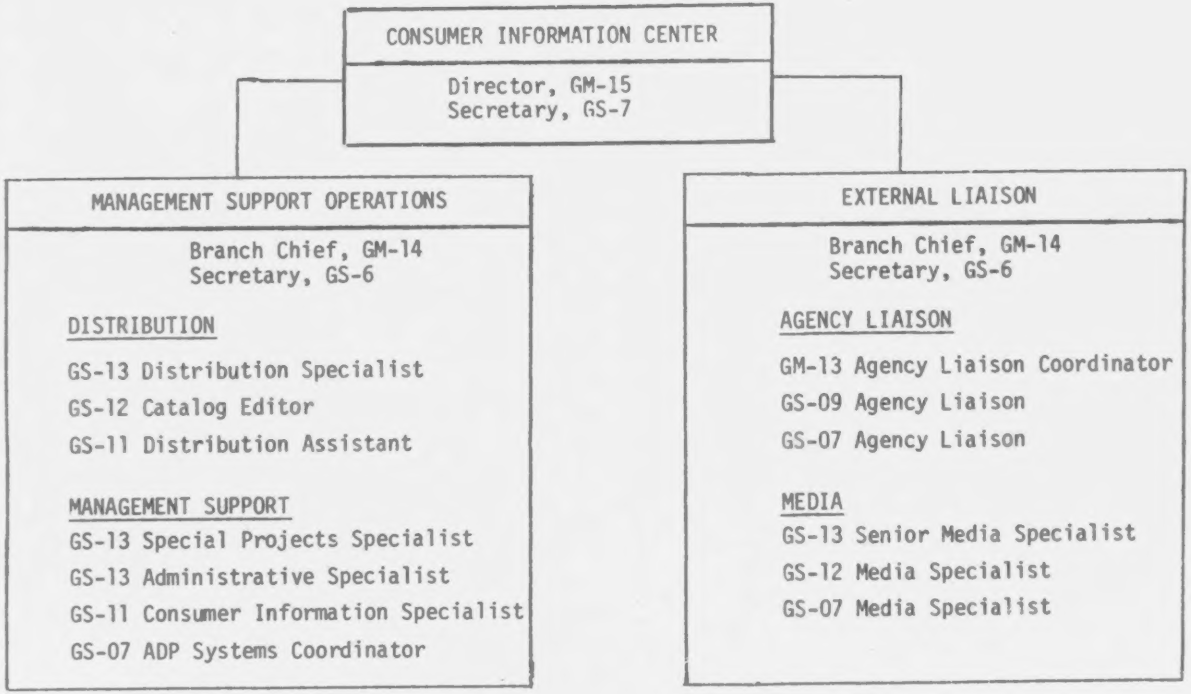
CONSUMER INFORMATION CENTER FUND
(Dollars in Thousands)

	Actual 1985	Estimate 1986	Request 1987	Change 86 vs 87
Source of Funding:				
Unobligated Balance Brought Forward	920	848*	678	-170
Unobligated Balance Rescinded	-63	-	-	-
Appropriations	1,149	1,235*	1,272	+37
Reimbursements from Agencies	2,193	2,459	2,595	+136
User Fees	292	300	300	-
Other Income	155	8	8	-
Total Resources Available	4,646	4,850	4,853**	+3
Application of Resources:				
Administrative Expenses				
-Salaries and Benefits	665	694	694	-
-Printing of the Catalog	380	430	471	+41
-Advertising Campaign	20	155	160	+5
-All Other	270	334	329	-5
Total Administrative Expenses	1,335	1,613	1,654	+41
Publications Distribution	2,220	2,459	2,595	+136
Special Projects	71	100	100	-
Prior Year Adjustments	172	-	-	-
Unobligated Balance Carried Forward	848	678	504	-174
Total Resources Applied	4,646	4,850	4,853**	+3

* Actual

** The requested aggregate limit of $5,200,000 (page 2) for FY 1987 exceeds the currently anticipated resource level for FY 1987 by $347,000. This overage allows for potential growth in publication development and therefore reimbursements to CIC from the private sector as well as from Federal agencies.

FY 1986 Staffing



CONSUMER INFORMATION CENTER

Director, GM-15
Secretary, GS-7

MANAGEMENT SUPPORT OPERATIONS

Branch Chief, GM-14
Secretary, GS-6

DISTRIBUTION

- GS-13 Distribution Specialist
- GS-12 Catalog Editor
- GS-11 Distribution Assistant

MANAGEMENT SUPPORT

- GS-13 Special Projects Specialist
- GS-13 Administrative Specialist
- GS-11 Consumer Information Specialist
- GS-07 ADP Systems Coordinator

EXTERNAL LIAISON

Branch Chief, GM-14
Secretary, GS-6

AGENCY LIAISON

- GM-13 Agency Liaison Coordinator
- GS-09 Agency Liaison
- GS-07 Agency Liaison

MEDIA

- GS-13 Senior Media Specialist
- GS-12 Media Specialist
- GS-07 Media Specialist

All professional staff members GS 7-13 have agency liaison responsibilities.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

OFFICE OF CONSUMER AFFAIRS

STATEMENT OF VIRGINIA H. KNAUER, SPECIAL ADVISER TO THE PRESIDENT FOR CONSUMER AFFAIRS

ACCOMPANIED BY:
- ROBERT F. STEEVES, DEPUTY DIRECTOR, OFFICE OF CONSUMER AFFAIRS
- FRANK R. MARVIN, DIRECTOR, MANAGEMENT STAFF, OFFICE OF CONSUMER AFFAIRS
- JOHN T. HOPKINS, DIRECTOR, DIVISION OF OS BUDGET SERVICES, DEPARTMENT OF HEALTH AND HUMAN SERVICES

INTRODUCTORY REMARKS

Senator GARN. Next, we turn to the Office of Consumer Affairs.

Mrs. Knauer, it is always a pleasure to have you appear before the subcommittee.

The U.S. Office of Consumer Affairs was created by President Nixon in 1971 to advocate consumer needs and viewpoints in the Federal Government, to foster consideration of consumer interest by other Government agencies, and to seek to inform and educate citizens to deal more effectively in the marketplace. The Director of the Office also traditionally serves as Special Assistant to the President, and the staff of the Office also provides assistance to the Consumer Affairs Council.

The budget proposal before us for the Office of Consumer Affairs totals six full-time permanent positions and $400,000. This is a decrease of $1,588,000, or 80 percent, from the fiscal year 1986 appropriated level, a very substantial reduction.

Please go ahead with your statement, Mrs. Knauer.

SUMMARY OF OPENING STATEMENT

Mrs. KNAUER. Thank you, Mr. Chairman and members of the committee. As always, I welcome the opportunity to give an accounting of our use of funds appropriated to us by the Congress and to request resources for the coming year.

Mr. Chairman, in the interest of time, as you requested, I will shorten my opening statement. The full text has been submitted for the record.

Senator GARN. Thank you.

Mrs. KNAUER. The official record is here, Mr. Chairman, in the 18 pages of formal justification, 12 pages of narrative supported by official tables. But sometimes all these details obscure the basic question. For the Office of Consumer Affairs, the question is: Have we been effective? Were we worth the investment? We believe the answer is an emphatic "Yes."

There are many examples of accomplishments to support this conclusion. Let me cite just a few examples from the major program objectives presented in more depth in our printed justification.

Consumer problems can be avoided through education, but data suggests that many people simply don't have the basic knowledge of how to deal effectively in the marketplace. For instance, one-fourth of teenagers queried in a major national survey believed or at least were unsure if the Government guarantees a profit for business. Last year, we reached 50 million persons during National Consumers Week through programs stimulated by OCA but largely developed and undertaken at the local level.

Mr. Chairman, I have with me copies of a final report which lists hundreds of examples of effective programs undertaken during that week. The cost to OCA for National Consumers Week 1985 was about 2 person-years and related support costs.

If a consumer has a problem, there is no better reference tool on what to do and where to go to solve the problem than the Consumer's Resource Handbook, prepared by OCA, with the help of 20 Federal agencies. One and a quarter million copies of the latest edition are now being distributed. Almost a quarter million copies of these have been requested for use by congressional offices, which we understand rely heavily on them, primarily to assist constituents.

No single Government agency or private group has sufficiently broad responsibilities to undertake the development of this handbook. The private sector has simply not been able to fill this information gap. Perhaps one of the most significant points, Mr. Chairman, is that every time the handbook prevents a misdirected complaint to the Federal Government, the taxpayer saves $8 to $10.

I am very proud of our record, Mr. Chairman, but now is the time to move ahead to a more policy-oriented mission. As indicated in our comprehensive budget justification, action will be taken in fiscal year 1987 to reorganize and incorporate the present U.S. Office of Consumer Affairs into an enhanced Office of the Special Adviser to the President for Consumer Affairs.

This change will provide a highly visible and cost-effective consumer policy guidance office in the executive branch. We plan to do this by relying for operational activities on the staffs of the 41 agencies which constitute the Consumer Affairs Council as they carry out their statutory responsibilities; by serving as a catalyst and adviser on partnerships and other cooperative efforts among business, Government, and consumers; and by encouraging both Federal agencies and non-Federal groups to assume responsibilities for more of the projects and campaigns previously undertaken by OCA.

Let me mention a few of the more significant changes proposed for 1987.

Rather than organizing and conducting conferences on major issues facing consumers, the OCA staff will participate in such forums, thus saving staff time involved in planning and development and associated costs for printing, postage, and related facilities support.

To obtain the views of consumer groups on emerging issues, priority will be placed on the attendance of OCA principals at a wide range of domestic and international meetings.

A priority will continue to be to organize issue discussions on consumer problems of women, the elderly, minority, low-income, and disabled consumers.

Business will be encouraged to resolve marketplace complaints through nonjudicial third-party dispute resolution mechanisms.

OCA will continue to work closely with the American Bar Association, the Council of Better Business Bureaus, the American Arbitration Association, and other similar groups as they assess the efficacy of alternative means to resolve consumer disputes, and, of course, the development of standards for third-party consumer dispute mechanisms.

We will provide national leadership to improve consumer education by participating in meetings sponsored by business, education institutions, and voluntary groups, and we will serve as a clearinghouse for innovative and effective consumer education techniques. We will also encourage business and private organizations to continue to develop teaching materials and undertake needed research.

High priority will be placed on the interest of consumers in trade and other international issues. As in the past, I will head the U.S. delegation to the OECD Committee on Consumer Policy, and we will participate in international policy and trade-related meetings which focus on the availability, price, and quality of goods for consumers.

Mr. Chairman, in summary, our proposed fiscal year 1987 budget indicates that OCA will join with other Federal agencies in carrying out mandated responsibilities to the consumer consistent with the efforts of the administration and Congress to balance the budget. I believe each Federal agency must find ways to do its job within the resources available.

I assure you, Mr. Chairman, OCA will do its part, too. Our formal budget justification provides the details.

Now, Mr. Chairman, we would be pleased to respond to any questions you or Senator D'Amato may have.

[The statement follows:]

STATEMENT OF VIRGINIA H. KNAUER

Mr. Chairman and members of the committee, as always, I welcome the opportunity to give an accounting of our use of funds appropriated by the Congress and to request resources for the coming year. The record is here, Mr. Chairman, in the 18 pages of formal justification—12 pages of narrative supported by the official tables. But sometimes all these details obscure the basic question. For the Office of Consumer Affairs the question is: Have we been effective? Are we worth the investment? We believe the answer is an emphatic yes. There are many examples of accomplishments to support this conclusion. Let me cite just one example for each of the major program objectives presented in more depth in our printed justification.

Last year our citizens lost millions of dollars as a result of a rapidly growing scheme based on obtaining a person's credit card number through fabricated telephone promotions. The problem: it takes a month or more before the consumer and the lending institution can confirm credit card misuse. The solution: credit card companies and trade associations are now working on an OCA proposal for a national toll-free telephone number for consumers to report suspicious calls to an industry information clearinghouse for subsequent referral to law enforcement agencies. The cost to Government—just a few weeks of staff effort.

This and many other consumer problems can be avoided through education. But, data suggests many persons simply don't have basic knowledge of how to deal effectively in the marketplace. For instance, one-fourth of teenagers queried in a major national survey believed or were unsure if Government guarantees a profit for business. Last year we reached 50 million persons during National Consumers Week through programs stimulated by OCA but largely developed and undertaken at the local level. Mr. Chairman, I have with me copies of a final report we prepared which lists hundreds of examples of effective programs undertaken during the week. The cost to OCA for National Consumers Week 1985 was about 2 person-years and related support costs.

If a consumer has a problem with a purchase, there is no better reference tool on what to do and where to go to solve the problem than the Consumer's Resource Handbook, prepared by OCA with the help of 20 Federal agencies. One and a quarter million copies of the latest edition are now being distributed. Almost a quarter million copies of these have been requested for use by congressional offices which, we understand, rely heavily on them, primarily to assist constituents. No single Government agency or private group has sufficiently broad responsibilities to undertake the development of this handbook. The private sector simply has not been able to fill this information gap. Perhaps one of the most significant points, Mr. Chairman, is that every time the handbook prevents a misdirected complaint to the Federal Government, the taxpayer saves $8 to $10.

Broad cross-cutting issues are also a major focus of the Consumer Affairs Council guided by the OCA staff. The Council assisted OCA in sponsoring an update of the landmark mid-70's study of "Complaint Handling in America," sponsored then by OCA. Comprehensive reports on the state of the art of consumer complaint handling by Government, business, and voluntary groups are now being delivered by the contractor. This study is the only one of its kind ever undertaken. The initial study findings have been used by Government to set standards for handling complaints—and were used extensively in business as a competitive tool. The evidence is there, Mr. Chairman—consumer complaint satisfaction means success for business. Again, no one group—Government or business—has either the broad-based interest or incentive to undertake this OCA-sponsored effort.

As consumers, each of us is directly affected by changes in international trade, and OCA brings to that policy process a balanced consumer perspective. For instance, last year my deputy was the chief U.S. negotiator in the development of Guidelines for Consumer Protection, subsequently approved by the United Nations. I coordinated development of U.S. policy on the work of the Committee on Consumer Policy of the 23 member nations Organization for Economic Cooperation and Development. No other Federal agency has provided this unique and essential representation of the American consumer's interest.

Mr. Chairman, we in OCA also can make the difference in the legislative/regulatory policy process. We fill the gap when a consumer perspective might not otherwise have been effectively presented by constituent groups or by agencies having statutory responsibility. Let me be specific—OCA made the difference in a proposed rule change dealing with retail food store advertising and marketing practices. The OCA proposal was a rallying point for a compromise which seems acceptable to FTC, consumers, and the industry—thus, on products advertised for sale in food stores, consumers would get rainchecks or substitutes of comparable value when sale items are out of stock. Food retailers would be freed from documentation requirements in order to have a sale, and the FTC's enforcement workload would be minimized. A formal rule is expected to be issued soon.

I am very proud of our record, Mr. Chairman, but now it is time to move ahead to a more policy-oriented mission. As indicated in our comprehensive budget justification, action will be taken in fiscal year 1987 to reorganize and incorporate the present U.S. Office of Consumer Affairs into an enhanced Office of the Special Adviser to the President for Consumer Affairs. This change will provide a highly visible and cost-effective consumer policy guidance office in the executive branch. We plan to do this by: Relying for operational activities on the staffs of the 41 agencies which constitute the Consumer Affairs Council as they carry out their statutory responsibilities; serving as a catalyst and adviser on partnerships and other cooperative efforts among business, Government, and consumers; and by encouraging both Federal agencies and non-Federal groups to assume responsibility for more of the projects and campaigns previously undertaken by OCA.

Let me mention a few of the more significant changes proposed for 1987:

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—To obtain the views of consumer groups on emerging issues, priority will be placed on attendance of OCA principals at a wide range of domestic and international meetings.

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Mr. Chairman, we will be pleased to respond to any questions you may have.

FISCAL YEAR 1987 REDUCTIONS

Senator GARN. Last year, Mrs. Knauer, looking back at some of the questions that I asked you, and I will quote directly: "Compared to some of the agencies within the subcommittee's responsibilities, OCA is relatively unscathed from the deficit reduction effort." I asked you, "To what do you attribute this fact?"

This year, I have asked you to what do you attribute the fact that you have been cut so much? Did OMB listen to our hearings last year of my saying you are relatively unscathed. I am puzzled by the difference in treatment from one year to the next.

Mrs. KNAUER. Actually, Mr. Chairman, back in fiscal 1982 we did take a budget reduction of 40 percent. But the proposed OCA budget for fiscal year 1987 reflects an administration decision to use available funds to expand the policy and advisory functions, as well as the unique role and perspective of the Office of the Special Adviser to the President for Consumer Affairs.

But the budget would eliminate operational functions, which could and, we hope, will be handled by others—Federal agencies, business, voluntary groups, and non-Federal governments.

OMB REQUEST

Senator GARN. What was the level of your budget request to OMB this year?

Mrs. KNAUER. Mr. Chairman, our budget request totaled $2,089,000 for the equivalent of 33 full-time employees. That included an increase of $101,000 over 1986. Of that, $21,000 was to meet an increase in rent for OCA office space; $21,000 for nonsalary, inflation-related increases; $15,000 for increased publication distribution costs at the Consumer Information Center in Pueblo; $10,000 for leased computerized research capability; $14,000 for within-grade raises; and $20,000 for developing information and education materials and related research on international trade issues.

Senator GARN. So the very large percentage cut came entirely from OMB?

Mrs. KNAUER. Yes.

Senator GARN. It was not a recommendation of you or your staff?

Mrs. KNAUER. No. You are quite correct, Mr. Chairman.

REDUCTION-IN-FORCE

Senator GARN. Is it necessary to use a RIF to reduce personnel rather than waiting for attrition?

Mrs. KNAUER. At the present time there are 31 employees on board. Our fiscal year 1987 budget proposes 5. Turnover is low. Only 1 person has left the staff in the last 6 months, and we will need to reduce staffing by the end of fiscal year 1986. Attrition, I am afraid, is not the answer.

Senator GARN. So this wouldn't take place at the end of the fiscal year, then?

Mrs. KNAUER. If Congress concurs in our reprogramming request, I am afraid a RIF might have to take place as early as June 1. This would enable savings to meet the $200,000 phasedown costs in 1986 that have been estimated by the Department of Health and Human Services.

Of course, there is also an $85,000 Gramm-Rudman-Hollings sequester in the current 1986 budget.

COMMUNICATING WITH NON-FEDERAL GROUPS

Senator GARN. On page 2 of your justification for 1987, you expect business, constituent consumer groups, and non-Federal governments to continue to build on past cooperative efforts.

Isn't this going to require a higher level of staff communication than requested in your budget?

Mrs. KNAUER. Not necessarily. The programs proposed in our budget are based on the assumption that our accomplishments over the past 5 years, as supplemented, of course, by attendance at precedent-setting meetings, will have the momentum to continue the progress we have made in the past.

CONSTITUENT RESOURCE EXPOSITION

Senator GARN. In the past, OCA has sponsored a Constituent Resource Exposition on Capitol Hill to provide information to congressional staff on executive branch assistance in handling constituent complaints. What are your plans for fiscal 1987?

Mrs. KNAUER. At the proposed fiscal year 1987 funding level, resources just will not be available to undertake this meeting, nor for that matter, the printing of the related Congressional Liaison Handbook. At the last exhibition we had a year ago, over 1,000 congressional staffers met representatives from 36 Federal agencies, and we were able to give them this Congressional Liaison Handbook which lists all the key agency contacts to ease the job of representing constituents.

PHASEDOWN COSTS

Senator GARN. What is the basis for your estimates of phasedown costs in fiscal year 1986, and why can't other activities be curtailed to absorb these phasedown costs?

Mrs. KNAUER. Mr. Chairman, the phasedown costs for OCA as proposed by the fiscal year 1987 budget are almost exclusively personnel related. Severance pay, lump sum leave payments, and unemployment compensation for terminated employees would total $200,000. These estimates are based on data drawn from the past experiences within HHS.

Personnel costs represent more than 60 percent of our OCA budget, the largest single opportunity for reductions. The remaining 40 percent are either fixed costs, such as rent for office space, or are directly related to major OCA program commitments, such as the April 1986 National Consumers Week, and, of course, the distribution of the Consumer's Resource Handbook.

We will certainly curtail expenditures wherever we can, but in any case, the savings will only delay the inevitable need to reduce the staff from 31 to 5 by October 1, 1986.

COSTS BY OBJECT CLASSIFICATION

Senator GARN. After paying compensation, benefits, and rent to GSA, you will have less than $100,000 left. What can you accomplish in programs with the remaining funding level? When you have to pay for travel, telephone costs, copying, and materials, what can you do with $100,000?

Mrs. KNAUER. I believe we can bring information and education to the public by using conventional media channels, such as press releases, interviews, speeches, and the use of the USDA weekly TV program called "A Better Way," which is broadcast to hundreds of stations and cable networks.

We can meet with leaders of national groups to encourage the exchange of ideas, offer advice and suggest incentives, and we can work through the four Federal agencies which are members of the Consumer Council. The costs are small, and there are benefits, and in the long run, we must count on others to carry out the operational programs.

ALTERNATIVE BUDGET LEVEL

Senator GARN. You know, I have to ask the question: When you start cutting an agency this much, is it worth continuing it at all? I don't mean that to be nasty at all, but you have been successful with certain programs in the past, and now when you are cut by 80 percent, might we not just as well save the $400,000.

Mrs. KNAUER. Oh, I hope you don't mean that [laughter] Mr. Chairman.

Senator GARN. I don't necessarily mean it. I ask the question of OMB, that is where I am asking the question—how can you cut an agency back to such a small level that it is not efficient at that level and you are not getting what you should out of it? In other words, I am talking about false economies here; either is it worth doing at a higher level, or not at all.

Mrs. KNAUER. I think the administration considered the idea of reducing our Federal deficit as it zeroed in on many agencies. I admit that this is a drastic cut. I think it was the intent of policymakers to keep the policy dimension of the Office and depend upon us to continue to seek outside help for the operational programs.

We presently seek outside help in printing many of our publications, and I think we would just have to accelerate that. I feel that we will be effective. I make well over 100 speeches a year. We meet with hundreds of different constituent groups, giving them advice. Naturally, that will have to be curtailed. There won't be that sufficient a staff to support that level. But, I think that we can emphasize the policy aspects of our Office and seek a great deal of outside help to continue the operational aspects of the Office.

ADMINISTRATION PRIORITIES

Senator GARN. I appreciate your valiant effort to continue under adverse circumstances and defend OMB. I wish I could.

But I might as well get it off my chest now. This is a perfect example of what will continue to happen through all the discretionary programs, because of a gutless administration and a gutless Congress who will not deal with the automatically indexed programs that are now most of the budget. So as we continue, whether it is Gramm-Rudman, whether it was the budgets from last year under the budget resolution, as long as we exempt certain programs and do not attempt to deal with this across the board, we will continue to squeeze discretionary programs over and over again, just like in this subcommittee.

The veterans are holier than thou, and I am a card carrying member of the American Legion and the Veterans of Foreign Wars. I qualify in all aspects, but a lot of the veterans programs are entitlements. So when we get a budget ceiling in this subcommittee, the entitlements get theirs off the top, and if you have got an extra billion that comes in because of automatically indexing, where does it come out? It is going to come out of your agency. It is going to come out of EPA. It is going to come out of housing. It is going to come out of NASA. It is going to come out of the National Science Foundation.

That is the major failure that this Government, both within the administration, the President who refuses to address it, and primarily the House of Representatives. The Senate did so last year on a 49-49 tie vote. We will continue to squeeze the discretionary programs of this Government out of existence.

When you have got food stamps, without regard to eligibility requirements, so we are not even discussing that, that has got a 10-percent error rate in that, that is $1,300,000,000 a year. That would take care of the reductions in every agency I have. It would solve every agency's problem, all of the independent agencies, and we exempt food stamps from any cuts whatsoever.

I don't understand that. Again, I am not arguing eligibility requirements, whether somebody should be or should not be eligible for the program. I am talking about a 10-percent error rate. As long as OMB continues to play games, and they back you down from $2 million to $400,000, that is peanuts.

That is just peanuts, because we won't address the big ticket items because we are absolutely gutless throughout this entire Government. So the additional functions of the Government are going to suffer, whether it is the Department of Agriculture, Meat and Milk Inspection, and all of those things we are supposed to be in, because we are simply taking money in automatically indexed programs, making them holier than thou, because we don't have the political courage to even talk about wastes, forgetting even a means test or anything like that.

You are going to continue to experience cuts like this. You will have to come up and justify cuts because OMB says so, good old heartless OMB down there.

Senator D'Amato?

Senator D'AMATO. Mr. Chairman, let me, to some extent, echo your remarks as regards to what would appear to this Senator to be a disproportionate cut in the business of reducing the deficit. Let me also commend Mrs. Knauer for her magnificent advocacy. I would love to have you on my team. [Laughter.]

Any one who could sustain such a horrendous cut and then present the budget in such a magnificent, splendid way is certainly reason for the accolades that you have received over the years and is proof positive that you are deserving of them.

Mrs. KNAUER. Thank you very much, Senator.

Senator D'AMATO. I see this pattern being replaced and repeated over and over. Senator Garn is correct when he says that in terms of the total effect on the budget, this isn't going to do a thing. We will see the same thing take place in senior citizen housing, which we desparately need, which was cut right to the bone.

We really, if anything, ought to be looking to expand it modestly, but we are eliminating the whole thing. The Urban Development Action Grant Program, eliminating the whole program. In terms of the total dollars saved, we are not talking about huge savings. In terms of them being able to say to the people that we are making balanced cuts, Mr. Chairman, our argument doesn't hold true, because they are not balanced cuts. They are disproportionate in effect and in weight, and then in terms of what they leave to function, I think there is a valuable function for your department.

CREDIT CARD FRAUD

I was going to talk to you about how we could encourage the free market system to work better by giving consumers information dealing with credit card charges. I know you have done some work in the area of credit card fraud, but you know, I hear people say, "Don't regulate because we want the free market to operate." That is fine.

In order for a free market to operate, though, people have got to have that information so the competition can really be available.

I am almost embarrassed to ask you how you would undertake an enhancement of this in terms of letting people know that there are interest rates for the same kinds of credit card terms and conditions and the same card that might vary by as much as 100 percent, where one institution is charging 20-plus percent, and another one would be charging in the area of 12 percent? That is a big difference.

How would you undertake that now?

Mrs. KNAUER. We have to depend upon the media such as through press releases or inclusion of the subject matter in speeches to the appropriate audiences. We think that might be the way we would have to continue to address issues that substantially affect consumers.

We do comment on legislation if the subject is not being represented by various constituency groups, particularly if there has not been substantial consumer input. Of course, we are involved in the legislative/regulatory review process within the administration on various consumer issues.

Senator D'AMATO. We look forward to working with you as it relates to, hopefully, some legislation that at last will find various channels for the distribution of this information so the free market system can work and so that there can be competition. Let me, again, commend you for your presentation and for your strength in the face of tremendous adversity and hopefully, we will be able to deal with this cut in, I think, in a more intelligent manner.

ALTERNATIVE BUDGET LEVEL—FURTHER CONSIDERATION

The chairman is absolutely correct. I think a cut of this proportion and this magnitude might better say, "Eliminate the whole thing and see what OMB says." They don't want to do that because they don't want to take that heat, but in essence, that is what they are doing. They are just keeping you there with a title and the functions; you will just simply not be able to perform adequately.

I would hope that we could be able to address this. I will support the chairman in that endeavor. He is going to be known as the big spender, I think, before this budget is over. [Laughter.]

Thank you, Mr. Chairman.

Senator GARN. Al, I may be known as a lot of things in my career [laughter] but never as a big spender.

SUBMITTED QUESTIONS

Mrs. Knauer, we will have some additional questions for your response in writing. Thank you very much.

Mrs. KNAUER. Thank you, Mr. Chairman, and Senator.

[The following questions were not asked at the hearing but were submitted for response for the record:]

QUESTIONS SUBMITTED BY SENATOR GARN

FY 1986 PRIORITIES

Question: Last year you provided a list of the top priorities for the Office in FY 1986 listed in order of importance. Would you, please, identify which of these you can address with your proposed staffing for Fiscal Year 1987?

Answer: Our priorities will continue to be four primary areas:

1. Providing national leadership in consumer education;
2. Participating in international trade issues;
3. Focusing on problems of consumers with specific needs such as the elderly and disabled persons; and
4. Our highest priority -- providing ideas and incentives to encourage voluntary action by business, consumer groups and state and local governments in lieu of Federal regulation.

With our staff of five we will focus on selected issues in each of the four areas on which we can make a positive contribution.

INTERAGENCY ACTIONS

Question: During FY 1984 you filed only a few formal comments and reviewed about 100 rulemaking agency regulatory proceedings. What was the level of activity in these areas during FY 1985 and what do you expect for FY 1986?

Answer: During FY 1985 we made five formal comments on inter-agency proceedings and reviewed well over 100 regulatory proceedings.

During FY 1986 our expectation is that our activity will be relatively less, perhaps two or three formal comments and 60 informally-reviewed regulations. We will continue to participate informally with other agencies in the early formulation of prospective regulations, although this activity will also radically diminish as we seek to meet prospective staff and budget cutbacks by June 1, 1986.

For FY 1987 we will perhaps be able to examine half a dozen regulations informally. We will need to review carefully our continued ability to perform in the formal comment process at the proposed FY 1987 level of staff and funding.

Question: Please provide for the record a list comparing FY 1983, FY 1984, FY 1985, FY 1986 and FY 1987 estimates by Federal agencies or organizations and a brief description of the actions involved.

Answer: We would be pleased to do so.

Regulatory Comments for FY 1983

1. Subject: Food Labeling; Declaration of Sodium Content of Foods and Label Claims for Foods on the Basis of Sodium Content
Food and Drug Administration

Comment: USOCA supported this proposal and suggested descriptive terms as to the amount of sodium in foods in order to eliminate potential confusion among consumers.

2. Subject: Ex Party No. 347 (Sub. No. 1) - Coal Rate Guidelines, Nationwide
Interstate Commerce Commission

Comment: Anticipating proposal would have substantial negative effect on consumer utility rates nationwide, USOCA suggested a consumer cost benefit analysis be completed before close of the comment period.

Regulatory Comments for FY 1984

1. Subject: Comment on Staff Report and Presiding Officer's
Report---Advertising for Over-the-Counter Antacids
Federal Trade Commission

Comment: Opposed staff recommendation that the Proposed Trade Regulation Rule on Antacid be adopted since present advertising practices are neither deceptive nor unfair.

2. Subject: Tariffs, Oversales, Counter Signs
Civil Aeronautics Board

Comment: Favored simplifying and consolidating counter sign notices of airline consumer protection rules.

3. Subject: 16 CFR Part 1032: Commission Involvement in
Voluntary Standards Activities
Consumer Product Safety Commission

Comment: Urged the Commission not to adopt this proposal which called for formally recognizing and supporting industry voluntary standards.

4. Subject: Docket No. R-0501
Credit Cards, Issuance and Liability
Federal Reserve System

Comment: Supported amending Regulation Z to apply its provisions on issuance and liability limitations for unauthorized use to all credit cards, notwithstanding that some of these cards may be generally exempt from other provisions of Regulation Z.

5. Subject: Docket No. R-0502
Electronic Fund Transfers
Federal Reserve System

Comment: Supported amendments to clarify the applicability of Regulation E to certain debit card transactions, expand institution's error resolution time period, and allow an alternative way of disclosing charges on accounts.

6. Subject: Docket No. 81N - 9994
Food Labeling: Irradiation in the Production,
Processing and Handling of Food
Food and Drug Administration

Comment: Supported FDA's proposed regulation to permit low-level irradiation of food to prolong storage and shelf life and to prevent insect infestation.

7. Subject: Docket No. 251, Notice 55
Uniform Tire Quality Grading Standards Effective
Dates for Reimplementation of Treadwear Grading
Department of Transportation

Comment: Supported rapid reimplementation of tire grading procedures.

Regulatory Comments for FY 1985

1. **Subject**: Docket No. N-84-1472, FR-2036
Criteria for Acceptability of Insured
10-Year Protection Plans: Contemplated
Revisions
Department of Housing and Urban Development

Comment: Supported proposed revisions to the Department of Housing and Urban Development criteria for acceptability of insured 10-year protection plans to provide homebuyers with better protection against construction defects through viable insured warranty programs.

2. **Subject**: Retail Food Store Advertising and Market Practices
Federal Trade Commission

Comment: Proposed immediate modification of FTC rule to create new defense to charge of violating prohibition against advertising items that become out-of-stock. Defense would permit retailers to establish that they routinely allow customers to choose between rainchecks and substitute goods of comparable value for out-of-stock items, at the same percentage price reduction as the out-of-stock advertised items.

3. **Subject**: Maryland Attorney Generals Arbitration Program

Comment: Supported proposed changes to Maryland Arbitration Program such as to start using volunteer arbitrators.

4. **Subject**: Proposed Exemption From Provisions Prohibiting
a Bank From Guaranteeing or Acting as Surety for
the Obligations of Others
Federal Deposit Insurance Corporation

Comment: Supported proposed amendments to FDIC's regulations to allow check guaranty cards and to allow bank sponsorship of customers who desire to obtain credit cards from other banks.

5. **Subject**: Docket No. 81N-0314
Sulfiting Agents; Proposal to Revoke GRAS Status
for Use on Fruits and Vegetables Intended to Be
Served or Sold Raw to Consumers
Food and Drug Administration

Comment: USOCA supported this proposal to exclude the use of sulfites on fruits and vegetables sold or served raw from those that are GRAS under the regulations on sulfiting agents.

ESTIMATE OF REGULATORY COMMENTS FOR FY 1986 AND FY 1987

FY 1986 - 2 or 3

FY 1987 - 1 or 2

FEDERAL HANDLING OF CONSUMER COMPLAINTS

Question: You previously indicated that there might be a follow-up to the 1979 Consumer Complaint Study. Would you please bring us up to date on the Consumer Affairs Council initiative to update "Consumer Complaint Handling in America"?

Answer: OCA and five other member agencies of the Council sponsored an update of the landmark study "Consumer Complaint Handling in America." The update will provide an overview of what has actually happened in the public and private sectors since the original study. The new study's objectives are to identify improvements, as well as deficiencies, in complaint handling systems, and to recognize changes in consumer behavior and make recommendations for action by government, business and voluntary groups. The study results will be released mid-April 1986.

CONSUMER'S RESOURCE HANDBOOK

Question: On page 7 of your justification, you refer to a revision of the Consumer's Resource Handbook -- a guide in solving marketplace problems developed through the assistance of 20 Federal agencies. Why can't the private sector meet the need for such a publication?

Answer: There are two basic reasons. This is the only publication of its kind. It represents a major research effort for individuals who don't have day-to-day working relatinships with consumer officials in Federal, state and local government offices and trade associations as does OCA. Much of the information in the Handbook is developed and used by OCA regularly in other ways. Good examples are the lists of trade associations, Federal government agencies, state and local consumer protection offices, Federal Information Centers and services for the handicapped. We cannot think of another group or agency that has sufficiently broad responsibilities or interests and the necessary resources to undertake the effort. We continue to work on opportunities to transfer some or all of the costs and responsibility of the Consumer's Resource Handbook to non-government sources, but our efforts to date have not been fruitful.

Question: Can the Consumer's Resource Handbook be updated?

Answer: Yes, we did an update in September 1984 -- correcting telephone numbers, addresses, etc., which were brought to our attention, but we have found that after a two year period the entire document needs to be redone.

Question: How many copies have you distributed in the past?

Answer: 2.5 million for the first two editions and the update. In addition, we just printed 1.4 million copies of the latest revised ediction.

Question: Do you have plans for subsequent update or revisions?

Answer: Because of funding limitations in 1987, we have no plans for an updated or revised Handbook.

TRAVEL AND TRANSPORTATION OF PERSONS

Question: Your travel budget for six persons in FY 1987 remains the same $45,000 level that you have for 34 persons in FY 1986. Why is that?

Answer: Most of the travel is now done by eight persons -- OCA Division Directors, my Deputy and myself. It is essential for senior OCA officers to meet with and encourage officials of business, voluntary groups and state and local governments in 1987 to carry out operational programs that would no longer be handled by OCA. Personal appearances in conferences and other meetings attended by the media will be central to maintaining our leadership role.

A high priority will also be given to increased participation in international and regulatory trade matters. Simply because of the lack of OCA resources, the U.S. consumer interest was not represented in such forums as:

- o Working parties of the OECD Committee on Consumer Policy dealing with product safety, banking and life insurance, and the
- o Biannual World Consumer Congress of the International Organization of Consumers Union held in Bangkok, Thailand -- the largest single gathering of world consumer leaders.

We will cut costs whenever we can, but travel is a necessity to achieving our program objectives.

CONSUMER AFFAIRS COUNCIL

Question: On page 2 of your justification you indicated that OCA personnel will work through designated Federal agency liaison officers of the Consumer Affairs Council as those agencies carry out their statutory responsibilities. How will these liaison offices be affected by the FY 1986/FY 1987 reductions?

Answer: We are presently not aware that any office activity will be reduced to the extent that staff cannot continue to participate in Council activities, but we will be gathering data and monitoring changes during the budget cycle.

CONSUMER PRODUCT SAFETY COMMISSION

STATEMENT OF CAROL G. DAWSON, ACTING CHAIRMAN

ACCOMPANIED BY:
DANIEL R. LEVINSON, GENERAL COUNSEL
LEONARD DE FIORE, EXECUTIVE DIRECTOR
ANNE GRAHAM, COMMISSIONER
STUART M. STATLER, COMMISSIONER
SAUNDRA BROWN ARMSTRONG, COMMISSIONER
THOMAS W. MURR, JR., DEPUTY EXECUTIVE DIRECTOR
RICHARD KOPANDA, DIRECTOR, BUDGET AND OPERATIONS

INTRODUCTORY REMARKS

Senator GARN. Next, if we could have the Consumer Product Safety Commission come to the witness table?

Thank you, Chairman Dawson. It is a pleasure to welcome you and other members of the Consumer Product Safety Commission to the subcommittee today. I would ask that you present a summary statement for the entire Commission and would ask, if they desire, that each Commissioner would present a very brief summary in highlights of their own statement. We will, of course, place all statements in their entirety in the record.

The Commission is an independent regulatory agency that was established on May 4, 1973, and is responsible for protecting the public against unreasonable risks of injury from consumer products. The Commission develops uniform safety standards for consumer products and promotes research and investigation into the cause and prevention of product-related deaths, illnesses, and injuries.

BUDGET REQUEST

This year, the budget request for fiscal year 1987 contains a request for $33 million and a cap of 527 FTE's, a reduction of almost $1,509,000 from the fiscal year 1986 appropriation.

Before you proceed, I would point out that CPSC is the only agency that did not provide its opening statement to the subcommittee last Tuesday when requested. The reason that we request all of the agencies appearing before the subcommittee, whether it is today or any other days of the hearings, 4 days in advance it isn't arbitrary; it is so that we have an opportunity for the staff to go through it, to analyze it, and also to give each member of the subcommittee an opportunity to preview that in advance.

So I am disappointed that we could not have that available. I ask you to proceed and explain, in addition to your statement, why it wasn't possible to have your statements to us like all of the other agencies?

Ms. DAWSON. Thank you, Mr. Chairman. I do apologize for that delay in getting our statement to you, and I can assure you that it will not happen again.

INTRODUCTION OF ASSOCIATES

I would like to introduce to you at this time the additional members of our Commission that are present this morning: Commissioner Armstrong on my right; on my left, Commissioner Statler and to his left, Commissioner Graham, who is our newest Commissioner.

STATEMENT HIGHLIGHTED

It is a pleasure to be before you this morning to discuss the U.S. Consumer Product Safety Commission's appropriations request for fiscal year 1987. We have an opening statement that we would like to submit for the record. I will now summarize that statement.

The Commission's fiscal year 1987 budget request is $33 million and 527 FTE's. This figure, arrived at in negotiations with the Office of Management and Budget, represents a reduction from the Commission's fiscal year 1986 appropriation level of $36 million and a ceiling of 568 FTE's.

With prudent and careful management, however, we are convinced that we can achieve our statutory objectives with this appropriation. In order to meet the fiscal year 1987 targets, the Commission has taken a very close and deliberate look at its entire budget. It is safe to say that absolutely no aspect of Commission operations or expenditures was overlooked in our effort to meet the budget target. The budget request you have before you is a realistic and honest effort to meet the agency's obligations within its budgetary constraints.

You will note, when comparing our fiscal year 1987 budget request to our fiscal year 1986 request, that we have reduced managerial staff, clerical support, operating costs, and contracts. Nearly all of the agency's ongoing activities and most of the hazard programs have been reduced from the fiscal year 1986 level. These changes are detailed in the budget request we have submitted to the subcommittee.

SIX PRIORITY PROJECTS

The Commission's budget preparation began with the selection of priority projects, a decision we Commissioners reached last summer. Those decisions were made with the benefit of public participation in open hearings. We tried to identify those projects that present the most serious safety problems for consumers. At the same time, we considered whether those projects would permit us to achieve measurable results with our available resources.

These projects were selected assuming a budget somewhat higher than our current request of $33 million. It is our intent, however, to keep the priority projects fully funded to assure that we meet our objectives within the shortest possible time frame. Those priorities are: all-terrain vehicles, child drownings, fire toxicity, poison prevention, riding mowers, and safety for older consumers. They are studied in detail in the documents we have submitted for review.

OTHER ACTIVITIES

The Consumer Product Safety Commission also engages in many important activities above and beyond its priority projects. The Commission carries out several ongoing activities that constitute the basic building blocks of product safety and that precede any project work. These include hazard analysis and injury data collection, information and education, section 15 compliance and enforcement activities, voluntary standards work, and other types of field activities.

We have had some notable successes in these areas during the past year. Those are detailed in the full text of our opening statement and in our budget request. They include our successful effort to obtain a voluntary standard to address chain saw kickback, our work to limit the propensity of upholstered furniture to ignite, and our cosponsorship of national conferences on pool safety and safety for older consumers.

CIGARETTE SAFETY ACT

We would like to raise one final matter, Mr. Chairman. There is one item that does not appear as a request in our fiscal year 1987 budget: the agency's work on the Cigarette Safety Act of 1984. As you know, the act requires the Chairman of CPSC, the Department of Health and Human Services, and the U.S. Fire Administration to determine if industry can develop cigarettes less prone to causing fires. Although the act names the Chairman of CPSC as chairman of this interagency committee, the statute vests no responsibility or jurisdiction for this activity with CPSC or any single Federal agency.

Moreover, the act includes no specific provision for funding. To date, almost $2 million has been spent or obligated for the Cigarette Safety Program, of which $1.65 million has come from funds appropriated to CPSC for that purpose or from the agency's own operating funds. Besides CPSC, only the U.S. Fire Administration has provided funds, and then only $150,000. We are told that an additional $605,000 will be needed to finish the Cigarette Safety Program, but the budget before you does not contain a request for that additional money. Given the leanness of our budget request in relationship to our considerable statutory responsibility, we believe the money should come from elsewhere, and we would appreciate it if this subcommittee could look further into the matter.

Thank you for giving us the opportunity to appear before you today and present the Consumer Product Safety Commission's request for fiscal year 1987.

Mr. Chairman, that concludes my remarks on behalf of the Commission. I would appreciate it if you would allow me to express some personal views on three areas of the budget that I feel merit your close attention.

PERSONAL VIEWS

First of all, the budget before you assumes that the agency will make some substantial cuts in its common costs. The most logical way to do this would be to consolidate our two Washington area headquarters offices. This involves moving the Commissioners and their staffs out of the Logan Building in Washington and placing them in Bethesda with the bulk of the agency's staff.

By doing this, the savings would be significant, anywhere from $350,000 to $500,000 a year, an amount that would fund half the contracts comprising our six priority projects. This amount doesn't even take into account the increased managerial and communications efficiency we can achieve by having the agency together in one building. The Commission's presence in downtown Washington does nothing to ensure greater consumer safety, and the money saved by consolidation would be better spent on hazard programs that do have an impact on safety.

Second, the priorities selected by the Commission were selected when it was assumed the Commission would have a significantly higher budget than our final mark. Obviously, that is no longer the case. Yet because of our prior decision, we are virtually locked into funding all of the priority projects.

As one example, at a budget level of $36 million, it might be entirely appropriate to give priority status to a project such as the Fire Toxicity Program, a long-term, extremely expensive research effort that between 1983 and 1987 has been budgeted for nearly three-quarters of a million dollars in contracts and approximately $960,000 in salaries.

At $33 million, however, it may well be that an agency such as ours, with its limited resources, is not the place to carry on such an ambitious and complex research effort. The funds which remain allocated to that program today, because of its priority status, might not have been devoted to that program had we known of our budget mark at that time. Accordingly, I think the agency should have more latitude to adjust its priorities on the basis of its final budget mark.

Finally, in my role as Acting Chairman, I have a managerial concern. The budget document before you assumes that we will be able to do everything we have done in the past, although at reduced levels. Clearly, I think the time has come for the Commission to make some hard choices. It must select only a few projects and do them well rather than trying to do all things for all people.

In addition, it must maintain its flexibility to deal with unanticipated consumer hazards. I have, therefore, directed the staff to engage in some contingency planning to see how we can best maximize whatever resources we are given by Congress. In this way, I hope the CPSC can efficiently meet its statutory obligations within whatever budgetary limits Congress selects.

That concludes my statement, Mr. Chairman. I will be pleased to answer your questions after my colleagues have been given a chance to present their views.

[The statement follows:]

STATEMENT OF CAROL G. DAWSON

Thank you Mr. Chairman. It is a pleasure to be before you this morning to discuss the U. S. Consumer Product Safety Commission's appropriations request for FY 1987.

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With prudent and careful management, however, we are convinced that we can achieve our statutory objectives with this appropriation. In order to meet the FY 1987 targets, the Commission has taken a very close and deliberate look at its entire budget. It is safe to say that absolutely no aspect of Commission operations or expenditures was overlooked in our effort to meet the budget target. The budget request you have before you is a realistic and honest effort to meet the Agency's obligations within its budgetary constraints.

You will note, when comparing our FY 1987 budget request to our FY 1986 request, that we have reduced managerial staff, clerical support, operating costs, and contracts. Nearly all of the Agency's ongoing activities and most of the hazard programs have been reduced from the FY 1986 appropriation level. These changes are detailed in the budget request we have submitted to the Subcommittee.

The Commission's budget preparation began with its selection of priority projects, a decision which the collegial body reached last summer. Those decisions were made with the benefit of public participation in open hearings. We tried to identify projects that present the most serious safety problems for consumers and at the same time permit us to achieve measurable results with the available resources.

These projects were selected assuming a budget somewhat higher than our current request of $33 million. It is our intent, however, to keep the priority projects fully funded to assure that we meet our objectives within the shortest possible time frame.

The six priority projects the Commission selected for 1987 are:

o All-Terrain Vehicles. Through our National Electronic Injury Surveillance System (NEISS), which makes projections based on reports from 64 emergency rooms, the Commission estimates that 66,900 hospital emergency room-treated injuries were associated with ATVs in 1984, with an estimated 78,000 more in the first nine months of 1985. Since the estimated 1984 injuries were almost two-and-a-half times the number of injuries estimated for the previous year, and more than seven times the number from the year before that, it seemed clear that this was a safety problem that deserved priority status. The Commission actually began its work on this project during FY 1986 through a reprogramming of its resources.

During FY 1985, the Commission conducted public hearings on ATVs in Jackson, Mississippi; Concord, New Hampshire; Dallas, Texas;

Milwaukee, Wisconsin; and Los Angeles, California. Another hearing is scheduled for Anchorage, Alaska in late March of this year.

o **Child Drownings.** As a result of a conference jointly sponsored by the Commission and industry, the Commission obtained sufficient information in FY 1986 to prompt it to select child drownings as an area deserving of special attention. Each year, over 600 people drown in backyard swimming pools in the United States. Of these, almost 300 are children under five years of age. We estimate that over 2,000 other children under five are treated every year in hospital emergency rooms for injuries associated with near-drownings. A significant number of these suffer long-term or irreversible damage. The Commission intends to study why such drownings are occurring at this alarming rate, as well as the feasibility of correcting the hazard by means of barriers, alarms, increased consumer awareness of the problem, or by other means.

o **Fire Toxicity.** The Commission will continue its work with other Federal, State, and local government units, and industry, to evaluate methods of reducing the number of deaths and injuries caused by toxic fumes generated during residential fires. The Agency will work to produce a fire hazard model to enable us to make recommendations to industry on product modifications to reduce this hidden danger, or take other action if necessary and appropriate.

o **Poison Prevention.** In 1986, the 25th Anniversary of National Poison Prevention Week, the Commission can look back with pride at the significant strides this nation has made in reducing the number of deaths and injuries associated with accidental ingestions of household substances. But there is still much to be done. In 1983, there were 55 deaths resulting from the accidental ingestion of prescription drugs and household chemical products. In 1984, an estimated 156,000 children under the age of 5 were treated in hospital emergency rooms for accidental ingestions, chemical burns and other acute injuries associated with household substances. The Commission's project for FY 1987 is designed to reduce children's exposure to hazardous household chemicals by determining the effectiveness of current special packaging regulations and determining whether unregulated chemical products should also be packaged in child-proof containers.

o **Riding Mowers.** There are some 100 deaths every year associated with riding mowers and garden tractors. In just one year, 1984, an estimated 50,000 medically-attended injuries were associated with riding mowers. In FY 1986, the Commission completed a preliminary hazard analysis on riding mowers, conducted engineering tests, and continued work on studying the dynamic stability of riding mowers. In FY 1987, the Commission proposes to finish its analysis of injury data, evaluate a field test developed in cooperation with industry, and complete its dynamic stability testing of riding mowers.

o **Safety for Older Consumers.** Our nation's elderly are particularly vulnerable to accidental injury, given their loss of vision and muscular agility, slowed reactions to stimuli, and greater tendency for bones to break easily and heal slowly. Injuries among the elderly are also more likely to be fatal than among other population groups. As recently as 1981, medical expenses for the elderly made up one-third of the nation's total health expenses of $225 billion. Given the danger to our older citizens from injuries caused by consumer products, and the cost to society, the Commission has had a continued interest in this area.

As a result of a national conference on older consumers held in September of 1985, the Commission obtained information that led us to conclude that further work needs to be done to improve the safety of products used by the elderly. In FY 1987, the Agency will continue to promote home safety for older consumers to the public and encourage replication of the home safety project through national media, cooperative efforts with major national organizations and businesses, and distribution of information to the public. In addition, the Commission will explore ways to implement recommendations presented at the September, 1985 National Conference on Safety for Older Consumers, as well as participate in and monitor related voluntary standards efforts.

Each year the Consumer Product Safety Commission engages in many important activities above and beyond its priority projects. The Commission carries out several ongoing activities that constitute the basic building blocks of product safety and that precede any project work. These include hazard analysis and injury data collection, information and education, compliance and enforcement, voluntary standards work, and field activities. We have had some notable successes in these areas during the past year, and I would like to share them with you.

One of our most notable recent successes is the completion of the Agency's work on a chain saw standard. Together with the American National Standards Institute, the Commission succeeded in obtaining industry agreement to produce chain saws that greatly reduce the amount of kickback. This achievement will result in an estimated 80 percent reduction in the number of injuries associated with chain saw kickback.

Another voluntary standards effort that has made significant progress in the last year is our work with the Upholstered Furniture Action Council to address the issue of the flammability of upholstered furniture. That effort is yielding improvements in fabrics and construction methods, which in turn will lead to a reduction in the number of deaths and injuries caused by smoldering cigarettes igniting furniture.

The Commission plans to work on more than 50 other voluntary standards in FY 1987 and requests sufficient resources to carry out this cost-effective activity.

Section 15 of the Consumer Product Safety Act is one of the tools the Commission uses to protect consumers. Section 15 requires manufacturers, distributors and retailers to notify the Commission if they obtain information which reasonably supports the conclusion that one of their products either contains a defect which could create a substantial hazard or fails to comply with a safety rule issued under the Consumer Product Safety Act. Through the provisions of Section 15, the Commission can swiftly identify and isolate hazardous products which can be removed from the marketplace without disrupting an entire industry. Since 1973, the Commission's use of Section 15 has resulted in the initiation of over 1,300 recalls or other corrective actions involving over 200 million product units.

The Commission's Section 15 work during the past year has produced some notable results, including the near doubling of Section 15 reports from the two previous years, 82 recalls of regulated products, and the opening of files on 100 other products that may represent a substantial product hazard. In several other instances, where a product hazard did not require a recall but still necessitated other remedial action to protect the public, the Commission obtained action leading to the labeling or redesigning of a product, or an improvement in the manufacturer's quality control.

On another front, the Commission began working with the National Spa and Pool Institute (NSPI) to address the serious problem of spa- and pool-related drownings. In May of 1985, the Agency co-sponsored a public conference along with NSPI to discuss ways of dealing with the situation. The discussions at that conference, and the information that it yielded, led the Commission to choose child drownings as one of its FY 1987 priorities.

The past year has also seen a concerted Commission effort to address the deaths and injuries associated with the use of All-Terrain Vehicles (ATVs). Although the ATV project was not a Commission priority for FY 1986, simply because of the speed with which the matter came to our attention, we did shift our FY 1986 resources to meet the new problem. This Subcommittee was kind enough to approve our reprogramming request for the ATV work. For FY 1987, as our discussion about the priority projects noted, the Commission intends to continue its work on this vital matter.

One other accomplishment from last year that bears noting is the Agency's rejuvenation of its State and local contracts program. We have found our work with State and local safety officials, and others, to be a cost-effective way to get the Commission's safety message to the public while receiving useful services from these in return. We would like to see that program continued at the level of funding requested.

These are just some of the Agency's accomplishments from the past year. The accomplishments we have discussed today are the result of routine ongoing Agency work, the backbone of our activities. We ask that you provide us the resources to continue the basic work that achieves the kinds of successes we have mentioned.

We would like to raise one final matter, Mr. Chairman. There is one item that does not appear as a request in our FY 1987 budget: the Agency's work on the Cigarette Safety Act of 1984. As you know, the Act requires the Chairman of CPSC, the Department of Health and Human Services, and the U. S. Fire Administration to determine if industry can develop cigarettes less prone to causing fires. Although the Act names the Chairman of CPSC as Chairman of this interagency committee, the statute vests no responsibility or jurisdiction for this activity with CPSC or any single Federal agency. Moreover, the Act includes no specific provision for funding.

To date, over $2 million has been spent or obligated for the cigarette safety program, of which $1.65 million has come from funds appropriated to CPSC for the purpose or from the Agency's own operating funds. Besides CPSC, only the U. S. Fire Administration has provided funds, and then only $150,000. We are told that an additional $605,000 will be needed to finish the cigarette safety program, but the budget before you does not contain a request for that additional money. Given the leanness of our budget request in relation to our considerable statutory responsibilities, we believe the money should come from elsewhere, and we would appreciate it if this Subcommittee could look further into the matter.

Thank you for giving us the opportunity to appear before you today and present the Consumer Product Safety Commission's appropriations request for FY 1987.

TESTIMONY OF SAUNDRA BROWN ARMSTRONG

Ms. DAWSON. Ms. Armstrong?

Senator GARN. Please.

Ms. ARMSTRONG. Thank you. Mr. Chairman and members of the subcommittee, I, too, would like to thank you for this opportunity to appear before you today in support of the President's 1987 budget request for the Consumer Product Safety Commission.

While I do not plan to submit separate testimony on the proposed budget, I would like to make a brief comment at this time. The Commission's statement which was read by Acting Chairman Dawson detailed the Commission's accomplishments of last year as well as our priorities and plans for fiscal year 1987. This recitation of past and anticipated achievements serves to illuminate the major challenge which the Commission will confront in fiscal year 1987; namely, to continue to operate effectively and to discharge our responsibilities consistently while sustaining a significant reduction in our operating budget.

BUDGET REDUCTION SUPPORTED

I supported this budget reduction because I considered it appropriate in view of the intensified efforts by the President and Congress to reduce the national deficit. Despite the impending decrease in our overall resources, I believe that the abiding commitment of our technical and support staff, in addition to our ongoing effort to streamline our operations, control spending, and to sharpen the focus of our programs, will enable the Commission to address the most significant and most pressing consumer product safety needs and thereby continue to fulfill its mission of protecting the American consumer against unreasonable risks of injuries associated with consumer products.

In this context, I intend to lend my full support to the implementation of this budget and other directives given to this Commission by Congress.

At this time, I will be happy to respond to your questions concerning the views I have expressed on the budget request or Commission activities. Thank you.

TESTIMONY OF STUART M. STATLER

Mr. STATLER. Mr. Chairman, I was intrigued by your question to the last witness, Virginia Knauer, about whether it makes sense to continue that function in the way it was originally intended when funds begin to get so low in an agency and they are cut back so much. I think that question applies equally to us. Interestingly, this particular year, our cut is on the order of 10 to 11 percent, not on the order of 80 percent, as in the case of the last witness. The fact of the matter is that over the last 12 years of this agency, we have suffered in terms of cuts more than any other health and safety agency in the U.S. Government—on the order of 55 percent in real dollar terms.

AGENCY PERFORMANCE

I think what that requires us to ask ourselves is whether we can continue to make minor cuts here, somewhat more selective cuts there, and still perform the same mandate that was given us in 1972 by the U.S. Congress and signed into law by the President. I don't think we can.

I think there are two core functions in the way of health and safety regulation that has to be performed. No one else at the State level or no one else in the Federal Government can efficiently do it. And that is first to perform the product recall, enforcement, and compliance work under section 15 of our act in order to get dangerous products off the market; and second, to put more moneys, not less, into detection of emerging hazards under our New Products Identification Program, where we actually go and try and find out what is coming onto the marketplace and try to avert tragedies before they occur.

I think if we are going to operate with a $33 million budget and staff that is down some 41 percent just since the start of this administration 6 years ago—if we are going to continue to decline in that way—we can't possibly do all the product standards work, either mandatory or voluntary, or monitor or participate in the way that we have tried to do in the past.

That is not to say that isn't very valuable work. Similarly, it is also very valuable to get information out to the public. But we can't do everything, and we can't be everything to all people. Under this budget, we are sacrificing some of the crux work, the core work that only we can do, by trying to accommodate all the segments of the Commission, all the functions that have been spelled out for us. All of these are important functions, but some are more important than others.

I have sent a letter to you dated February 10. I would ask that that be included in the record. It details in explicit terms why I believe the budget before you makes a mockery of the mandate that the Congress has given to us. I think the public needs to know that.

It is up to the Congress to decide whether all the types of hazards, hazards that we know about right now, today, and we will not be doing anything about in 1987 under this budget will be addressed: hazards involving all-terrain bicycles; the BMX bikes that the 1976 standard doesn't cover in any realistic way; hazards having to do with indoor air quality; hazards having to do with upholstered furniture and the fire problem, the LP gas grills in back yards; pressed wood products; and riding mowers. They are all detailed in my letter.

My point to you is that if you want those programs continued, then something has to be cut somewhere so that this agency is given the dollars and the staff to do it. If we are not going to get the dollars and staff to do that work, I would suggest leaving those projects to industry to do on their own. If they don't, I suspect that some very enterprising State legislatures will step in and come up, as Minnesota has done, in the way of pressed wood production and formaldehyde emissions; as California has done in the case of upholstered furniture; as New York is about to do in the way of across-the-board descriptive age labeling for toys, and then those industries will be coming back to Congress urging you to refund the Consumer Product Safety Commission in order to have uniformity of laws across the board because this way, they are going to get a diversity and it is going to cost them more to manufacture the products that they make today.

That is my message, Mr. Chairman.

[The statement follows:]

STATEMENT OF STUART M. STATLER

February 21, 1986

The Honorable Jake Garn
Chairman
Subcommittee on HUD-Independent Agencies
of the Committee on Appropriations
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

As you know, CPSC is required by law to prepare an annual budget request for submission to Congress and the Office of Management and Budget ("OMB"). In advance of CPSC's budget hearing before you next week, I want you to know that last fall, despite prolonged consideration, the Commission found itself unable to agree upon the amount and focus of our budget request for FY'87. Solely to provide the majority vote necessary to comply with the law, I reluctantly voted to transmit a budget request of $35.6 million and 568 full time employees ("FTE's") that I believed, then as now, would prevent us from adequately protecting the American public against unreasonable risks of injury and death from consumer products. Subsequent events confirmed my worst fears. For the reasons set forth below, if Congress goes along with the grossly underfunded OMB budget marks of $33 million and 527 FTE's, it will make a mockery of our safety obligations to this Nation and signal the irreversible decline of this agency and the vital function it serves.

INADEQUATE FUNDING AND STAFF RESOURCES

CPSC's original FY'87 budget submission to OMB requested $35.6 million and 568 FTE's -- figures that are woefully inadequate to fulfill our vital mandate from Congress. Even those Commissioners who endorsed the submission viewed this funding and personnel request as "the minimum necessary to continue a viable product safety program."

A glance back at CPSC's recent history shows that this agency already has been the subject of draconian budget slashes resulting from both reductions in amounts authorized from year to year and repeated failures to compensate for the effects of inflation. CPSC's very first budget, back in 1974, provided for just under \$31 million. The proposed FY'87 budget before you today of \$33 million represents a astonishing decline of 55 percent from this amount when inflation is factored in. Also adjusting for inflation, compared to our FY'86 appropriation, the FY'87 budget is down 11 percent; compared to our funding level just five years ago in FY'81, before the start of this Administration, our budget is down a whopping 34 percent.

Staff also has been dismembered: the proposed level of 527 FTE's for FY'87 represents a slash of 462 persons, or 41 percent, from the 889 FTE's who helped carry out this agency's mission as recently as in FY'81.

The chart below demonstrates all too clearly that over the last 13 years, CPSC has borne far more hurtful cuts than any other health and safety regulatory agency in the federal government.

Agency	FY'74 Funds	FY'87 Funds	FY'87 Funds Converted to FY'74 Dollars	Real % Incr. or Decrease
EPA	\$528,000,000	\$2,426,466,000	\$1,020,124,000	+93%
OSHA	70,408,000	225,811,000	94,934,000	+35%
FDA	160,590,000	423,600,000	178,088,000	+11%
FTC	32,334,000	69,045,000	29,028,000	-10%
NHTSA	142,715,000	193,930,000	81,531,000	-43%
CPSC	30,900,000	33,000,000	13,874,000	-55%

Slicing CPSC's budget by more than half might be appropriate if changes in the laws we administer meant that there was only half as much for the agency to do. But that's hardly the case. Instead, each year we find altogether new and previously unsuspected hazards that require our attention. Cuts of the magnitude I have described mean that we are unable to assess emerging risks from new products, or even identify them in the first place. In turn, more consumers inevitably will be maimed and charred and killed before we can even begin to seek solutions.

Some hazards will not receive the attention they demand, while investigations of others are tabled indefinitely for want of funds. As our fast-disappearing staff is spread more thinly in each succeeding year, we are at a point where we can't effectively target new trouble spots or correct those already at hand.

FAILURE TO ANTICIPATE FUTURE RISKS

The budget before you meets OMB's arbitrary funding and staffing mark for CPSC. But it fails to adequately fund CPSC's frontline effort against emerging risks, namely its program of New Product

Identification ("NPI"). This effort serves as our "early warning" system by scanning the marketplace for hazards presented by products first being introduced. Upon indications of a possible hazard, early-on the NPI team develops remedial strategies to reduce or eliminate the risk -- ideally, before tragedies occur.

Recent successes include efforts with individual manufacturers and whole industries to address amputation and laceration hazards from brushcutters and snowthrowers; work with Underwriters Laboratories ("UL") to upgrade the safety standards of electric blankets, quartz heaters, LP cabinet heaters, and a host of other auxilliary heating devices; and efforts with industry to redesign recliner chairs against head and neck entrapment of children, and bunk beds against the dangers of collapse.

Perhaps the most outstanding recent success involves the serious risks associated with all-terrain vehicles (ATV's). In FY'84, NPI first spotted the fast-rising number of tragedies linked to increased sales and use of ATV's. This warning led to an intensive scrutiny and eventually to our current top-priority project to redress the startling number of serious injuries and deaths, especially to children, associated with the rollover, tipover and flipover of ATV's.

Despite this record of achievement, the budget before you fails to adequately fund this critical program aimed at emerging risks. No funds at all were set aside for contract support, and less than one percent of the agency's personnel resources are directly devoted to this effort.

This budget also utterly fails to designate sufficient resources for strategic planning efforts. Experience suggests that as it proceeds in its second decade, the CPSC should devote resources to develop a blueprint which looks beyond simply our next annual budget submission. We ought to track the new technologies -- such as microcircuitry, lasers, fiber-optics, computers and robotics -- that increasingly are finding their way into consumer products or the way in which they are manufactured. We need to assess the risks, as well as the benefits, these technologies portend so as to avert problems before they arise. Yet the proposal before you fails to provide for any long-term strategic planning, or the nurturing of CPSC training and expertise in these fast-evolving technologies. We are charged by statute with anticipating serious risks to consumers and preventing tragedies. Our failure to address and fund such long-term planning undermines our ablity to live up to that mandate.

CHILDREN AT RISK

Other obvious flaws in this budget directly strike at the most vulnerable of all consumers -- our children. Three areas of mounting concern bring this home: structural failure of new-style bicycles; disfigurement, paralysis and death from diving incidents in backyard swimming pools; and entrapment fatalities from garage door openers.

o Bicycle Structural Failures

Each year, from 1980-1984, we've seen some 550,000 bicycle-related injuries treated in hospital emergency rooms. In 1983 (the last year for which comprehensive data is available), CPSC's death certificate file recorded 93 bicycle-related deaths; two-thirds involved head injuries. An outside users group, Bicycle USA, has implored CPSC to make bicycle safety a priority; our staff developed a five-year plan to significantly reduce the risks. But we can't implement the plan because of our budgetary fix.

There is a dire need to upgrade the "current" (viz. 1976) bicycle safety standard to address the mushrooming growth of off-road ("BMX") bicycles. These bikes routinely undergo stresses never even contemplated when we issued the mandatory rule. Staff has learned that some components of bicycles that meet the current standards in all respects nonetheless fail in use. (At this very moment, at least three manufacturers have just recalled BMX bicycles to replace the main structural stems that can fail catastrophically, severing the stem from the handle bars.) We also need to upgrade criteria for accessories such as helmets and goggles, particularly in light of the high incidence of deaths due to head injuries.

To do this, staff requested a meager 28 staff months and $140,000. From its otherwise sparse resources, the Commission settled on a truncated funding level of 24 staff months and $50,000 -- about a third of the amount requested. This limited commitment will barely scratch the surface of the complex engineering, human factors and injury work that must be done. At that level of funding, it will take far too long before we can come up with recommendations to make bicycles really safer. And so, the CPSC can't now even begin to contemplate remedial measures to safeguard America's bicycle riders . . . mostly young children.

o Diving Tragedies

Although the Commission endorsed efforts to reduce child drownings as a FY'87 project, it omitted work to reduce the high number of diving injuries in backyard pools. Over 300 Americans -- mostly teenagers -- are paralyzed each year from diving incidents. More than half of the injuries result in quadriplegia; and 80 percent of the victims are young males.

Our staff sought a modest 13 staff months and $25,000 to assess ways of alleviating this toll. The work would have served as the basis for further studies by various panels under the aegis of the National Pool and Spa Conference (which CPSC co-sponsored last spring) to develop remedial strategies. Based on conversations I had with representatives of the industry, safety consultants, private attorneys, and our own staff, far more financial and staff support is needed for this work. But my plea fell on deaf ears -- not because the project was unimportant, but because the funding and staff resources were not otherwise available once we were so arbitrarily restrained by the OMB mark.

While one Commissioner agonized over the possibility that CPSC might, in the course of this effort, investigate and make recom- mendations for improving the "design" of swimming pools, the whole diving project was shelved. In these days of "deregulation," even the possibility of assessing product design seems to evoke the heebie jeebies in some of my colleagues who won't acknowledge that this is precisely what the agency was set up to do.

o Automatic Garage Doors

In the last four years alone, 23 children aged nine or younger have died tragically -- sometimes only yards away from their parents -- in incidents involving automatic garage doors. Too often, children play a deadly game of "chicken," triggering the wall-mounted control or the remote control and then racing under the descending door. Tragedies also occur when a child operating the switch unintentionally traps a playmate, or when some object in the garage falls against and activates the switch. Automatic reverse mechanisms, which should avert these tragedies, must be regularly adjusted to, and maintain, close tolerances if they are to function properly in an emergency. But the death toll indicates that they don't always work.

The industry, to its credit, has twice tightened up on voluntary standards to help prevent entrapments. But millions of door openers were installed prior to the effective date of the most recent change in 1982. Entrapments will continue until some better means of child-resistant protection is implemented for current production, and retrofitted for earlier models.

Our original FY'87 budget included 17 staff months to evaluate inexpensive and effective means to reduce entrapment incidents from door openers that predate the 1982 standard revisions. Staff planned to consider the cost and effectiveness of simple retrofit devices, as well as existing and alternative sensor mechanisms, including direct sensors (akin to the rubber bumpers found on elevator doors). The paltry 5 staff months in the budget before you hardly represents a genuine commitment; it is more on the order of a pretense. And pretenses won't save lives.

CHEMICAL RISKS

The chemical hazards work of the Commission is also given short shrift in the budget proposal before you. Certain chemicals, known as "*strong sensitizers*," cause severe allergic reactions in susceptible persons. At present, CPSC requires special labeling for only five such substances found in consumer products. We are now evaluating four others. In FY'87, we wanted to take further action on four sensitizers. This project has been axed. It seems penny wise and pound foolish to abandon these efforts, especially after we've worked out the procedures to promptly evaluate sensitizers and even completed significant research on certain ones.

Proposed projects to assess the genetic and carcinogenic effects of other chemicals and particulates also got shelved. So were programs to ascertain the human health risks presented by *glycol ethers* and *paradichlorobenzene* ("PDCB") *in indoor air*. Some glycol ethers are known to cause birth defects in laboratory animals. Similar compounds are widely used in such products as window and oven cleaners, rug shampoos, and paints. More than 53 million pounds of PDCB are produced annually; much of it finds its way into America's homes in mothballs, diaper-pail odorants and bathroom deodorizers. Each is believed to contribute to the decline in the quality of our indoor air.

The decision to curtail work on these indoor air pollutants is especially ironic because the last Conference Report on CPSC by the HUD-Independent Agencies Appropriations Committees directed us to *increase* the funding and staff devoted to indoor air quality. Under this budget, there is not one cent set aside for field testing or determining human exposures to these toxic substances.

FIRE HAZARDS

The agency's fire hazards programs are decimated. This includes the FY'87 *fire toxicity* project which is an agency priority. Contrary to our own budget guidelines, the Commission failed to fully fund this priority. Staff originally sought 88 staff months and $240,000 to find out what can be done now to keep so many people from succumbing to smoke inhalation from use of highly toxic materials in construction and home furnishings. After staff was pressured to cut back, funding for the project shrank to 69 staff months and $175,000, even though it's clear these slashes mean slower action -- and more lives lost. The Commission rejected giving this project the support it needs to help save those lives.

Other fire hazard projects were axed entirely. Our efforts to reduce the risk of fires from electric heat tapes (which are wrapped around water pipes to keep them from bursting in cold weather) are a thing of the past. Too often, circuit breakers fail to "trip" when there is an overload or defect in a household electrical system. We had hoped to determine how and why they fail, and share the fruits of our efforts with UL and affected industries to correct the problem. Now, we won't. We will also close our eyes to the deadly fires and explosions that may directly result from the widespread overfilling of propane ("LP") cylinders used in backyard gas barbecue grilles.

And the list goes on. Work is halted on preventing kerosene heaters from "flaring up" -- turning homes into blazing infernos within moments. In 1984, more than 100 Americans died in kerosene heater fires, with flare-up being the leading known cause. And all further work to reduce the flammability of upholstered furniture also is being stopped in its tracks. Nearly 15,000 times a year, a glowing, forgotten cigarette ignites a piece of upholstered furniture, killing some 860 Americans. No longer will we work with industry to develop new materials and techniques to stop this carnage. Instead, we are now beating a hasty retreat from our statutory mandate to combat fire hazards.

UNFINISHED BUSINESS

This budget also fails to approve numerous other key projects aimed at protecting consumers. Specifically --

* In 1984, there were about 50,000 medically attended injuries from riding mowers. We've successfully completed the first phase of an analysis of the risks and examined the massive costs from these injuries. In FY'87, we planned to test how the mowers become unstable during use and play a lead role in designing out any unreasonable risks. But we won't under this budget proposal, because the $300,000 needed for these tests has been yanked.

* Thousands of consumers have registered complaints about several household products, especially paneling and particleboard, that emit formaldehyde fumes. Consumers report nausea, headaches and vomiting as common symptoms. The Department of Housing and Urban Development (HUD) has responded to such complaints by restricting the amount of formaldehyde emissions from pressed wood products in mobile homes. This year,

we are assessing the problem in conventional homes, and are prepared to make suggest acceptable emission levels. But in FY'87, we will turn our back on this work. And so much past effort will be wasted, while the danger persists.

* In 1984 (the last year for which data are available), some 85,000 medically attended injuries were associated with chain saw hazard patterns unrelated to the kickback risks we've already addressed. Between 1978 and 1982, nearly 30% of chain saw-related deaths reported to the CPSC and 75% of the injuries were associated with these non-kickback incidents. Twice, in FY'85 and '86, we've reneged on our commitment to work with industry to reduce this toll, in each case because we had to divert already scant resources to the expanding ATV effort. In this FY'87 budget before you, we've devoted only 27 staff months and no contract dollars to this task. That's not enough even to begin to address this most serious risk. It's hardly a good faith pledge by us to an industry that has urged us to help them to correct this hazard.

* Recent advances in electronics permit us to design sensors directly into products to guard against many hazards. Such sensors could afford fail-safe protection against shock and electrical fires. CPSC is ideally suited to evaluate ongoing efforts by the home-building community to redesign household electrical systems for maximum energy efficiency, convenience and safety. Unless we are involved in the "Smart House" undertaking, there may be no strong advocate for safety concerns when the inevitable compromises are struck. The very few staff months grudgingly allocated for this purpose do not begin to ensure needed agency input into this promising preventive effort.

CHANGE COMMISSION STRUCTURE

I would be remiss if I did not suggest an area where changes can be made without impairing the agency's effectiveness. But this can only be done by Congress, not us, because it requires amendments to our statute. Specifically, CPSC no longer needs to be administered by five Commissioners. Originally, given our procedures, our budget and the number of employees to be supervised, five Commissioners were deemed advisable. But as the number of key personnel continues to shrink along with the agency's overall budget, it becomes harder to justify the need for five Commissioners, each advised by two Special Assistants and assisted by secretarial/clerical staff. The direct costs are significant. There are also sizeable indirect costs resulting from the multiple often-inconsistent demands on staff by each of five Commissioners.

Therefore, I would strongly recommend that consideration be given by this Appropriations panel to urging that our authorization panels and each house of Congress amend the

Consumer Product Safety Act to reduce the number of Commissioners by two, or even possibly re-establishing the agency to be headed by a single administrator. Obviously, the advantages of retaining a Commission structure -- its independence, the diversity of ideas, the continuity of regulatory approaches over time -- are not insignificant. But either alternative could result in substantial economies without further impinging upon our mission. And the savings from implementing this change could be used to restore some of the valuable programs we've been forced to abandon.

CONCLUSION

The truth is that the CPSC's FY'87 budget "request" was jerry-rigged to fit into a wholly arbitrary budget mark set by an Office of Management and Budget which seemingly doesn't care about the safety mandate of this agency. That mark will not permit the Commission to do its job as required by law.

Congress created the CPSC to stay on top of industry trends, spot needless risks before many -- or any -- consumers are hurt. We're ordered to perform the underlying research and investigative work this task requires. Excessive cost-cutting where health and safety are at stake is not only perilous to the well-being of the nation, but exceedingly short-sighted. It should be all too clear that it's a whole lot cheaper for our society to prevent tragedies in the first place than to pay dearly for them as the body count inevitably rises.

The critical hazard projects I have attempted to describe weren't fabricated by idle minds looking for ways to insidiously add to the federal deficit. Each represents a carefully considered response to a pressing public health and safety concern. The fact that we won't, under this budget, be able to adequately address even one of these risks is a cause for agonizing. Simply stated, known risks to the American public are not being addressed. This budget proposal constitutes a ringing indictment of the severe, unabated budget slashing over the last few years that has imperiled our ability to protect against death and grievous injury from unreasonably dangerous consumer products. And predictably, the ultimate victim is the American public.

Ms. GRAHAM. Mr. Chairman, I don't have a statement.

Ms. DAWSON. That concludes our statements, Mr. Chairman.

BUDGET CUTS

Senator GARN. Let me just say in response to the last statement, my question may have been interesting when you get into cuts from $2 million down to $400,000. But I don't think that applies to CPSC.

If you are talking about cutting by 80 percent, the question would be valid. I understand what you are saying. You think the cut is still too high. Mrs. Knauer is facing about the same dollar cut out of $2 million that you face out of $33 million. So I don't think anybody is on the verge of wanting to do away with you on the basis of a cut or a feeling that $33 million can't do some good for public safety in this country.

Mr. STATLER. My only comment is that my observation was addressed to the idea that if our budget is going to be $33 million, perhaps—and I realize it is not the role of this committee, but rather within the jurisdiction of our oversight committee, the Commerce Committees in the House and Senate—Congress should rethink how much of our present mandate they want us to do, or where they want us to prioritize, and what they don't want us to do. I think that needs to be done, as well as considering the whole Commission structure—whether you still need, as I point out in my letter to you, five Commissioners to perform this role, or whether either one person, as in the case of all the other health and safety agencies in the Government, or a three-member Commission, would do—but basically, rethink some of the fundamental questions about our mission and structure.

PROGRAMS ELIMINATED

Senator GARN. What are the major activities included in your October 1985 version of the 1987 budget justification that have been eliminated from the President's CPSC budget request?

Ms. DAWSON. Mr. Chairman, we have eliminated seven of the hazard programs: kerosene heaters, upholstered furniture, feedback electrical systems, heat tapes, microcircuitry, strong sensitizers, and household hazards voluntary standards. Those were areas we wanted to fund. After we got the OMB mark, we had to make some difficult choices.

In four of those seven programs, we had already done a considerable amount of work. Two of those seven hazard programs are in emerging areas that we may want to look at later. There were eight other hazard programs that were cut back, and in total, about $0.5 million in contract funds were eliminated.

STAFFING LEVEL

Senator GARN. The fiscal year 1987 CPSC justification presented in February indicates that in the estimated budget for fiscal year 1985, there were $36 million with resources for a total of 481 FTE and a ceiling of 468 FTE. The 4.3-percent Gramm-Rudman-Hollings across-the-board reduction would eliminate $1.5 million from your estimated fiscal year 1986 budget. What is the CPSC's staffing objective in FTE for fiscal year 1986?

Ms. DAWSON. After taking the Gramm-Rudman reductions, our goal is an average level of 542 FTE's. Our current, on-board strength is approximately 553 FTE's, including temporaries.

Senator GARN. How will you accomplish the transition from your current level?

Ms. DAWSON. We hope that the reduction can occur through attrition and a policy of limited hiring, filling only truly critical vacancies. At this time, we are not planning any reductions in force or furloughs.

IMPACT FROM GRAMM-RUDMAN REDUCTIONS

Senator GARN. What is the one major impact on fiscal year 1986 from Gramm-Rudman reductions?

Ms. DAWSON. I think the major impact is going to be a lack of flexibility in staffing. As vacancies occur through attrition, there may be too many employees in some offices and too few in others. This will present an administrative challenge through fiscal year 1986 as we work toward nearing our goal of 527 FTE's before the end of the fiscal year.

Inasmuch as we can't predict in advance where the attrition will occur, and thus can't compensate for the staffing changes until they occur, the resulting staffing pattern may not respond to needed program support in the fiscal year 1986 operating plan. That may have a further impact on our ability to carry out the projects in the budget before you.

Senator GARN. Could you provide for the record a revision of the summary table of the budget provision on page 6 in order to give us details on the $1.5 million reduction?

Ms. DAWSON. Yes. This information is being prepared by our budget staff in the form of a letter to the subcommittee requesting reprogramming of fiscal year 1986 resources to accommodate the Gramm-Rudman reduction, and it will be provided to you very shortly.

[The information follows:]

GRAMM-RUDMAN-HOLLINGS REDUCTION

The table appearing on page 6 of our justification is updated below to show our current estimate of how the 1986 sequestration will impact our programs. It is important to note that these figures cannot be determined with much accuracy at this time due to the nature of our Gramm-Rudman-Hollings reduction plan.

Three major components of this plan—salaries, operating costs, and common costs—were reduced in total but not by program. For example, we plan to reduce staff and salaries through attrition but, until such attrition occurs, we will not know which programs will be losing staff. Several assumptions, therefore, had to be made to produce this table; we plan to keep the committee informed of changes in the program distribution as the fiscal year progresses.

U. S. CONSUMER PRODUCT SAFETY COMMISSION

SUMMARY OF RESOURCES FOR FY 1985, 1986, and 1987
(Dollars in Thousands)

	FY 1985 Actual		FY 1986 Estimate		FY 1987 Estimate		Difference 1986 - 1987	
	FTEs	Funds	FTEs	Funds	FTEs	Funds	FTEs	Funds
I. Commission Policy Development and Direction	64	$3,772	60	$3,730	57	$3,629	-3	-$101
II. Product Safety and Enforcement								
Executive Direction	16	1,180	18	1,209	18	1,363	--	+154
Hazard Programs								
Emerging Hazards	31	1,906	30	1,904	36	2,293	+6	+389
Fire/Thermal Burns	32	2,825	26	2,808*	18	1,227	-8	-1,581
Electrical	15	947	15	947	12	652	-3	-295
Chemical	30	2,486	31	2,027	26	1,683	-5	-344
Children's/Recreational Products	9	580	7	397	9	559	+2	+162
Power Equipment	22	1,604	25	1,744	22	1,471	-3	-273
Household Structural Products	6	393	6	306	6	507	--	+201
On-Going Activities								
Hazard Identification and Analysis	38	3,393	32	3,163	31	3,201	-1	+38
Engineering and Sciences	12	941	15	1,099	15	1,046	--	-53
Information and Education	19	1,734	19	1,842	17	1,815	-2	-27
Compliance and Enforcement	47	2,955	45	2,758	47	2,935	+2	+177
Field Activities	153	7,226	156	7,081	157	7,051	+1	-30
Subtotal, Product Safety and Enforcement	430	28,170	425	27,285	414	25,803	-11	-1,482
III. Administration and General Support	79	3,831	70	3,482	69	3,568	-1	+86
Total, Commission Resources	573	35,773	555	34,497	540	33,000	-15	-1,497
Workyears Subject to Ceiling	(560)	--	(542)	--	(527)	--	(-15)	--
Unobligated Balance Lapsing	--	682	--	--	--	--	--	--
Reimbursements	--	380	--	385	--	405	--	+20
GRAND TOTAL		$36,835		$34,882		$33,405		-$1,477

* Includes $45,000 in two-year funds carried over for the Cigarette Safety study.

REDUCTIONS BY OBJECT CLASS

Senator GARN. Could you also provide for the record the reductions by object class, by revising the table on page 99 of your planned budget justification?

Ms. DAWSON. We would be happy to submit that, Mr. Chairman.

[The information follows:]

OBJECT CLASSIFICATION
(Dollars in Thousands)

		1985 Actual	1986 Estimate	1987 Estimate
	Direct obligations:			
	Personnel compensation			
11.1	Full-time permanent	$19,162	$18,894	$18,106
11.3	Other than full-time permanent	1,348	1,350	1,298
11.5	Other personnel compensation .	161	157	154
11.8	Special personnel services payments	55	63	63
11.9	Total personnel compensation .	20,726	20,464	19,621
	Personnel benefits:			
12.1	Civilian	2,447	2,402	2,310
13.0	Benefits for former personnel.	67	65	65
	Subtotal	23,240	22,931	21,996
21.0	Travel and transportation of persons	578	760	700
22.0	Transportation of things	38	30	33
23.1	Standard level user charge ...	2,363	2,197	2,164
23.2	Rental payments to others.....	--	--	--
23.3	Communication, utilities and other rent	1,603	1,844	1,892
24.0	Printing and reproduction	573	510	504
25.0	Other services	6,290	5,499	5,020
26.0	Supplies and materials	425	366	383
31.0	Equipment	663	355	303
42.0	Insurance claims and indemnities	--	5	5
99.0	Subtotal, direct obligations .	35,773	34,497	33,000
	Reimbursable obligations:			
21.0	Travel and transportation of persons	--	5	5
25.0	Other services	380	380	400
99.9	Total obligations	$36,153	$34,882	$33,405

CONSOLIDATION

Senator GARN. The language proposed by the OMB in the President's fiscal year 1986 budget suggests that $33 billion should be provided for necessary expenses of the CPSC, and I quote, "provided, that no funds are available after March 1987 for any Commissioners' offices located in the Logan Building."

Having reviewed your October justification, I noted this language did not exist in the CPSC proposal and that Commissioner Dawson, now Acting Chairman, dissented from the Commission provision to estimate that a quarter of a million dollars was needed to maintain a separate office in Washington, away from the bulk of the professional staff in Bethesda.

Of the 543 FTE's proposed for fiscal year 1987, how many Commission staff are located in the Logan Building?

Ms. DAWSON. There are presently 28 employees in the Logan Building.

Senator GARN. Could you describe the CPSC organizational entities located there?

Ms. DAWSON. Yes, we have the Chairman's office and those of the other four Commissioners and their staffs, which equal 20 FTE's; the Office of Congressional Relations, which has 4 FTE's; the Office of Media Relations with 3 FTE's; and a reading room with 1 FTE. That equals the 28 persons currently located at Logan.

Senator GARN. How long has the CPSC leased space in the Logan Building?

Ms. DAWSON. About 10 years, since 1976.

Senator GARN. When does the current lease expire?

Ms. DAWSON. The agency does not lease that building on its own, but does so through GSA. The lease can be terminated by a simple 120-day notice.

Senator GARN. Assuming that all personnel at the Logan Building were moved to your main facility in Bethesda, could you estimate the numbers involved?

Ms. DAWSON. The staff estimates consolidation costs of approximately $60,000, which would include the cost of the move and the cost of any renovation that might have to be done in the building to accommodate the added personnel.

Senator GARN. Is there room in Bethesda to accommodate them?

Ms. DAWSON. Yes. According to the staff, there is room to accommodate the additional personnel.

Senator GARN. Are there funds provided for the one-time move in the fiscal year 1987 budget?

Ms. DAWSON. There are no funds specifically earmarked for a move, but there is adequate funding available in our common costs account to cover the anticipated $60,000 cost for this move.

Senator GARN. Can you estimate the amount of travel time in fiscal year 1987 in hours that would be spent by personnel to be relocated?

Ms. DAWSON. Mr. Chairman, since the Commission meetings would presumably be held in Bethesda, once our offices were consolidated, I think the move would result in a net gain in time. Commissioners and their staffs who now need to travel from downtown Washington to Bethesda to attend meetings and consult staff would already be there. When the Commissioners need to attend a meeting in downtown Washington, it takes about 20 minutes by car to go from Bethesda to downtown.

Most representatives of industry and consumer groups come to us for meetings. So the need to go downtown would be rare. In any event, the costs for the five Commissioners to travel to Washington would be more than offset by the savings we would realize by not having to have from 10 to 30 Bethesda staff members travel to attend meetings in the Logan Building 2 to 3 days a week.

Senator GARN. I want to ask the other Commissioners your opinions on the consolidation.

VIEW OF COMMISSION MAJORITY

Ms. ARMSTRONG. Mr. Chairman, if I might, I thank you for this opportunity, first of all. I would like to express the view of the majority of the Commission here that there are other elements to be taken into consideration besides money, and I would take exception to the chairman's conclusion that it would, over time, result in a net gain.

I think it would result in a net loss for a number of reasons, particularly in a time when the Commission is shrinking in resources and there are some major changes taking place. I think it is more important that the Commissioners and the hearings which we conduct are accessible to those individuals and those groups that have an interest in what we are doing.

I think the Office of Media Relations can best serve the agency by being downtown and being in the area where it is accessible to the media. In the future, we are going to rely even more heavily on the media to get the message out than we have in years past, because we just simply won't have the resources from this point forward to continue along those lines.

I think it is advisable to have the Office of Congressional Relations downtown where it will be able to interface with Congress and provide the Commission and Congress with responses to whatever concerns you have in an expeditious fashion. Consolidation or any dislocation at this point would be an additional destabilizing influence at a time when the agency is also experiencing severe budget cuts and probable restructuring through the management review. I believe the majority of the Commissioners who have taken a position on this issue believe that it is premature to indicate it is cost effective to move to Bethesda, because at this point, at least in my estimation, there is more to be concerned about than just the financial resources.

GAO STUDY

Also, another point that I think whould be made is that the House reauthorization bill, as Commissioner Statler alluded to, has a provision in it for a GAO study for the collegial body and leadership of this Commission. Making a decision prematurely at this point could very well result in duplication of expenses. To the extent the GAO study concludes that the more appropriate form of leadership is to incorporate, for example, in another executive department, that may involve additional expenses.

The provision in the House bill at this point calls for the study to be completed by January 1, 1987. Intrinsic, I believe, in any evaluation of the appropriate leadership of the Commission would also be some discussion of the public relations aspect in terms of what the Commissioners' roles are in relating to industry, consumer groups, trade associations, and having public hearings.

I would think as part of that study some consideration would be given to the appropriate location to enhance the effectiveness of these activities vis-a-vis a Commission whose primary responsibility is to make sure that we get some of the information out to the consumers. I would urge, and I believe that the majority of the Commission here presently on the Commission would urge, the Senate to delete the provision provided in the budget at this time which would preclude expenditures for space in the Logan Building.

We are not asking for any increased appropriation. I would like to make that distinction. We are just asking for the ability to utilize our appropriation the way that the majority of the Commission feels is most appropriate and most effective for this agency.

LOST CONTACTS

Senator GARN. Mr. Statler?

. Mr. STATLER. I believe Commissioner Armstrong speaks for four Commissioners. Of the four, I am probably the weakest link, and only because when it comes to the kind of budget crunching that we are doing, you look for pennies and dimes and dollars wherever you can in order not to disrupt fundamental programs.

My personal view, however, is that there would be a great deal lost to the Commission and its mandate in terms of missed contacts with the public, with the media, and with industry that we deal with on a day-to-day basis by virtue of being out in Bethesda and by not having a presence downtown. Press contacts would be less frequent; that our message would not get across as well to the media. As a result, fundamental safety messages would not be received by the public.

From discussions that I have had, I don't anticipate that there would be that degree of coverage were we out in Bethesda. Finally, as we get smaller and smaller, it seems to me that we have made adjustments by trying to cut back on necessary staff attending meetings downtown, so we have made savings in that respect. We have cut down on the space we have both in Bethesda and downtown over the last several years, but if we have to go with a budget like this, then we have to consider that any dollar saved by consolidation may help someone.

The problem is that dollars saved in costs are going to mean benefits lost to the public and to the industry because our message will not be received and media cooperation simply will not be there.

Ms. GRAHAM. Mr. Chairman, I am the newest Commissioner, and I need to look at this issue more closely. For the time being, I would endorse Commissioner Armstrong's statement.

SEPARATION OF MANAGEMENT

Senator GARN. Let me say, without having gone into any detail of it, I have really a very difficult time justifying the separation of management, and I look at a lot of examples in my own career when I was mayor of Salt Lake City. Many years ago, everybody wanted to be near the city and county building, a big center of power, like the Capitol is now, and every department head could justify why they should have an office in the city and county building. Yet it was rather interesting, when we finally had the money to get the parks department out of literally small horse barns, and build new facilities for them, they had their commissioner and everybody else work with them every day. The same thing in the water department, where I was water commissioner before I was mayor of the city. We actually had the superintendent down with his troops. I heard all the arguments about why we should not do that.

Most of them were totally invalid. The operation, when the agencies and each department of the city government were actually together, was remarkable. I don't know how you can quantify that capability and put a dollar value on it.

I don't know how many of you Commissioners just like to be downtown. I don't mean to put it personally, current Commissioners or anybody else, but I have been around Washington for 12 years, and everybody wants to be downtown. Bethesda isn't 150 miles away. Bethesda is not very far away.

I cannot believe, whatever you say about media, that if you have got something important to say that the media won't be there to listen to you. I just can't accept that, Commissioner, as a reason for the people, if they really want to see you, to not go all the way out to Bethesda.

I go home to McLean every night. Most people do. I can't say see that that is much of a deterrent. Again, I am not speaking in specifics. I haven't seen the studies. But as a general management principle, there aren't too many people that want their bosses separated from the work that goes on every day.

From a very general standpoint and my own management experiences, having run a relatively large city in this country, I have a hard time accepting that you need to be separated physically downtown from the rest of the agency. I can't imagine that it wouldn't function better if you were all together. Regardless of where that is.

Yes?

ACCESSIBILITY TO BETHESDA

Ms. ARMSTRONG. If I might respond, I believe the majority of the Commission would agree with you that the ideal situation would be to consolidate the staff with the Commissioners at an appropriate location. One of the major concerns that we have with the Bethesda location is that its accessibility is severely restrictive.

The closest Metro, I believe is 2 miles away. The cab fare is enormous from the airports. Our major concern—and I can't get away from this—is thinking in terms of what Congress has charged this agency with responsibility for doing.

One of our major responsibilities is to make sure that we communicate with consumer groups, with industry, and with the people who will be directly impacted by some of the decisions we make. It has been my experience in the short period of time I have been on the Commission that when we have hearings in the Bethesda location, we have very few people who attend, for whatever reason.

I would suggest that accessibility or inaccessibility is a part of that. I think the reading room should be in downtown Washington. We certainly have no objection to exploring other locations, appropriate locations, accessible locations that will allow the consumer and the industry groups and the trade associations and the media easy access so that we could maximize our effectiveness, particularly at a time of shrinking resources.

We don't have the resources that we had in years past, which makes it even more important at this point that we utilize and interface with the media and consumer groups who can ensure that the word gets out to their constituents, because we will not have the resources to continue along the lines that we have had in the years past.

As I indicated earlier, assuming the House reauthorization bill is passed, since the GAO study of this issue is to be completed by January 1, 1987, we would hope, or the majority would hope that the Senate would consider deleting that provision that would put us on a fast track in terms of consolidating to this one particular location until we can evaluate what their findings are. It may be appropriate, depending on their conclusions, to make some other move that is not consistent with this provision.

Again, I am underscoring that we are not asking for any more moneys. We are only asking you to give us the discretion, as we have with the rest of the budget, to utilize our funds in a way that the Commission decides will most effectively enhance our ability to perform our charges.

Senator GARN. I understand what you are saying. I am just saying that from a management standpoint, you are not going to convince me of the benefits of having a divided agency, whatever other advantages you may feel sincerely are there. As to whether the media won't go all the way to Bethesda or not, they follow me a lot of places I wish they wouldn't. I am speaking from a management standpoint. You will not convince me that you can run as efficient of an operation divided in that way, whether it is Bethesda or whether it is here or wherever you are.

Based on practical experience over the years, you won't make that case with me. You may be able sometime to say that it outweighs the inefficiency, the other advantages. Maybe you can try to make that case, but from a management standpoint, you are not going to convince me that you, as Commissioners, can sit in your ivory tower down here any more than we sit in our ivory tower here in Capitol Hill knowing enough of what is going on in the agencies that we are supposed to have oversight and supervise.

That contact, the change was so dramatic when I was able to consolidate the departments of city government and put their commissioners with them, it was remarkable. I don't know how you put a dollar value on that. But the water department and the parks department and the streets department all ran a lot better when they weren't having to run back and forth, when they could sit down and manage with meetings and work things out together.

Ms. ARMSTRONG. We don't disagree with you at all, Mr. Chairman, because that is the optimum, to have us consolidated in one location. We are currently exploring with GSA other locations besides Bethesda, perhaps in Virginia or other locations, where facilities are located where we can consolidate the entire Commission in a place that is more accessible.

Certainly, the bottom line is that we are in agreement in terms of the ideal of having all the staff together. It is just the location that we are struggling with at this point, but we are exploring ways at this point to accommodate that.

Senator GARN. Again, you can argue that you would like to be downtown and there is some advantage from that, but I am glad you made the clarification. From a management standpoint, don't try to argue with me that you are better off separated.

Ms. ARMSTRONG. That is not the point. I am glad that I was able to clarify that.

Ms. DAWSON. I concur with your view, Mr. Chairman. With respect to the view of my colleagues, faced with the budget reductions we have, we are going to have to make some hard choices very, very soon.

The rent we pay currently for our Logan Building office is around $250,000 a year. It is scheduled to go up in 1988. We really can't delay this consolidation decision for very long because it is critical to our survival as an agency.

MEDIA ACCESS

Senator GARN. Mr. Statler, let me ask you this as far as your comments about media access. Do you really believe that if you had something important to announce that it makes any difference where you announce it from to the media? It certainly has been my experience over a long time of dealing with the press that if I don't have anything important to say, it doesn't matter where I announce it, they are not going to cover it.

If they decide it is important, they will be there if they have to come with a dog sled.

Mr. STATLER. Generally speaking, your point is well taken. What we have found from experience, however, is there is some cutback when we have the sensational type of item; that is, the item that may make the front part of the paper as opposed to the business or style sections. The media, for the most part, will show up, only not in as great numbers as they would show up downtown—but they will show up.

When it comes to the less racy items, a briefing on pressed wood products, for example, our experience is that the media will not show up in Bethesda. It is my view that when we have had such sessions downtown, when the AP or UPI or the reporter or the Washington Post or the New York Times does show up and writes a story on it, that coverage, in turn, generates the kind of activity in the industry itself that can often be far more valuable than the FTE's or the contract dollars that we put into the effort ourselves.

In other words, that kind of public exposure, when the media is there covering an issue, can save millions of dollars and countless lives by virtue of expediting work on a particular hazard.

Senator GARN. I wonder if Bethesda has a chamber of commerce [laughter] to defend themselves. I never thought I would hear how far out in the woods Bethesda is. You would think of it almost like it was like Garrison, UT.

Ms. DAWSON. Mr. Chairman, I think it is 8 miles from our downtown location.

Senator GARN. I shouldn't knock Garrison. I will get in trouble. They have 50 people. They have a 3,000-foot gravel runway that you land uphill on and take off downhill on, and there is a hand-painted sign as you make an approach there that says "Garrison International." [Laughter.]

Anyway, we thank you for being with us today. In addition, we have a number of additional questions which we would appreciate your responding to for the record.

[The following questions were not asked at the hearing but were submitted for response for the record:]

QUESTIONS SUBMITTED BY SENATOR GARN

OBJECT CLASSIFICATION 25.0 REDUCTIONS

Question: Page 99 of your justification indicates that aside from reductions in compensation and benefits for employees, the largest reductions are in Object Class 25.0, Other Services. This category is proposed to be reduced 20% from your 1986 estimate to your 1987 Budget.

I know that one of the major items here is outside contracts and services.

Would you please indicate some of the major reductions proposed?

Would you provide a full listing of all of the reductions in this object class for the record?

Answer: The major reduction in Object Class 25 can be attributed to the $930,000 reduction for the cigarette safety study, which is not funded in 1987. The remaining reduction is a mixture of increases and decreases in hazard, support, and administrative activities. Following is a listing of these changes. Each program change is the net result of numerous increases and decreases for individual projects comprising the program, so only the most major changes are described.

Executive Direction.................................. +$160,000

- o Net increase for implementation of management review decisions.

Fire and Thermal Burn................................-$1,095,000

- o Reduction of $930,000 for cigarette safety study (not funded in 1987).
- o Reduced contract support for fire toxicity.
- o Reduced contract support for gas appliances.

Electrical Hazards....................................-$75,000

- o Portable electric heaters project completed in 1986, and no contract funds needed in 1987.

Chemical Hazards......................................-$200,000

- o No contract funds included in 1987 for indoor air quality.
- o This reduction was partially offset by an increase for the poison prevention priority project.

Children's and Recreational Products....................+$50,000

- o Funds allocated to the bicycle project.

Power Equipment..	-$90,000

- o Slightly additional contract needs for the all-terrain vehicle priority project.
- o This increase was offset by a reduction in contract funds needed for chain saws.

Household Structural Products..............................	+$155,000

- o Increased funds allocated to the child drownings priority project.
- o Increased funds allocated to the older consumer priority project.

Ongoing Support Activities.................................	-$95,000

- o Reduced funding for information dissemination contract.
- o No funds allocated for procuring expert testimony for Section 15 litigation; If need arises, expenses will be covered by operating funds.

Administrative/Operating Costs.............................	-$74,000

- o Slightly reduced operating expenses.
- o Reduced computer utilization costs.
- o Minimal increase in administrative services contracts.

TOTAL............	-$1,264,000

Question: Would you indicate what you would do if the funding you expect under reimbursable obligations (Object Class 25.0) is reduced 20% by other federal agencies reacting to Gramm-Rudman-Hollings in 1987?

Answer: We would renegotiate the interagency agreement with any agency proposing a reduction, and would cut back our data collection support for the agency. The most likely methods of reducing support would be to eliminate special study support, eliminate reporting of cases of marginal interest (if any) and, if necessary, reduce the number of hospitals reporting supplemental information for that agency.

FIRE AND THERMAL BURNS/U.S. FIRE ADMINISTRATION

Question: On page 15 of your justification, it is indicated that fire is the fourth leading cause of accidental death in all environments and the second leading cause of accidental death in the home. You estimate there were over 848,000 structural fires causing 5,400 deaths and more than $6 billion in personal property damage in 1984.

Under the Cigarette Safety Study, you have been working with the U.S. Fire Administration of the Federal Emergency Management Agency (FEMA). OMB has submitted a FEMA budget to the Subcommittee that would end the U.S. Fire Administration, eliminating the national focus for fire research and public information, and producing an annual savings of $10 million.

What is your reaction to the recommendation and where within the Federal government would it be feasible to transfer the fire research and public information activities of the U.S. Fire Administration?

Answer: Clearly, the elimination of the U.S. Fire Administration would affect CPSC in several ways. We would lose the input of the nation's fire community on a policy level. The U.S. Fire Administrator serves as Vice Chairman of the Interagency Committee which oversees implementation of the Cigarette Safety Act of 1984. In addition, Commission staff would no longer have access to the fire data which is maintained by FEMA.

Activities currently conducted in fire research and public information might be transferred to another appropriate agency within the federal government, but the Commission takes no position at this time as to which agency that would be.

STATE AND LOCAL PROGRAMS

Question: In response to a question at the FY 85 hearing, CPSC indicated it planned to allocate $100,000 and two FTEs in FY 84 and the same resources in FY 85 for state and local programs. Since that point, we understand these numbers have changed.

What was spent in FY 85?

Answer: CPSC allocated $100,000 contract dollars and 4.5 FTEs to state and local programs in FY 85.

Question: What do you estimate for FY 86 and for FY 87?

Answer: In FY 86, the Commission originally allocated $250,000 in contract funds and 5.9 FTE positions for state and local programs. Subsequently, in order to meet reductions imposed by Gramm-Rudman-Hollings, the Commission has put on "hold" $40,000 in contract funds specified for a planned state-designee workshop, and an additional $50,000 in contract funds until we are able to foresee how successful our efforts to cut back in other areas, such as common costs and salaries, will be.

For FY 87, our budget submission contemplates allocating $250,000 in contract funds and 5.7 FTEs to state and local programs.

INDOOR AIR QUALITY

Question: The Committees on Appropriations provided the CPSC with $250,000 in 1986 funding to address indoor air quality. What specifically will you do with this funding in the remainder of the fiscal year?

Answer: Our present plans are to support four contracts with these funds as follows:

- o Study product contribution to indoor allergens and pathogens.
- o Provide for NO_2 monitoring as part of ongoing National Electronic Injury Surveillance System (NEISS) study.
- o Determine presence of airborne asbestos fibers.
- o Sponsor indoor air quality monitoring workshop for State/local officials.

The entire 1986 effort will be coordinated through the Committee on Indoor Air Quality (CIAQ).

Question: Chemical Hazards which included indoor air quality was reduced 14% in FY 86 compared to the previous year and was reduced an additional 21% below this in FY 87.

When the Subcommittee noticed this trend in FY 86, we asked you why this area was taking a greater cut than the other hazard areas and you indicated while the funds were being decreased, important work was still being accomplished.

We ask you once again, why the disproportionate reduction?

Answer: Each hazard program competes for limited resources available. With reduced resources, the Commission must direct its staff and dollars to the most hazardous areas. Projects that are not as significant a health hazard such as strong sensitizers and textile finishes were reduced or eliminated in order to provide resources to address more serious hazard areas. Although the Chemical program has gone down in resources, the Poison Prevention priority project has been fully funded and other serious chemical hazards such as glycol ethers, chlorocarbons and indoor air quality are being addressed.

STATE CONTRACT PROGRAM

Question: At the FY 86 hearing in response to a question on the evaluation of the State Contract Program, you responded that an effective alternative to an outside evaluation contract would be "to build an independent evaluation component into the FY 86 State Contract Program".

This would place the State personnel in the position of determining the effectiveness of their program.

Have you implemented this anywhere in FY 86?

Should not the CPSC try this as a pilot test with one or two of the most progressive states in FY 87 and if promising, expand it to other states over future years?

Answer: The Commission has an obligation to evaluate the effectiveness of its state and local contracts to assure that they provide a meaningful return. At present, our system of evaluation relies both on outside personnel who are not affiliated with a contracting state and the internal expertise of the Commission organizations which use the work product of the states. At this time, we have not built an independent evaluation component into any state contract. If we desire to follow this approach, it would be prudent to do so on a pilot basis.

I&E CAMPAIGNS

Question: The Subcommittee has in the past expressed its concern that CPSC was putting resources into information and education campaigns with little proof that the information would reduce the number of consumer product accidents or ameliorate the injuries coming from the remaining accidents.

This year, you are requesting over $1.8 million for information and education activities.

Would you please provide information on the funding and the specifics of what you are doing in the following I&E efforts -- safety for older consumers; child drownings; and all terrain vehicles.

Answer: The FY 1987 request of $1.8 million for I&E activities represents 5.1% of total Commission resources. This compares with I&E funding of 4.2% in 1985 and 5.4% in 1986. Thus, there is no significant change, and even a small reduction in the amount of dollars being devoted to I&E activities within the Commission in 1987. In terms of FTEs, we propose to allocate a total of 17 FTEs in 1987, as compared with 19 in FY 85 and 20 in FY 86, for all I&E activities.

In the three I&E efforts you identified, All Terrain Vehicles, Safety for Older Consumers and Child Drownings, the following figures and information are provided.

o I&E activities for the ATV priority project are approximately $103,000 in FY 87, representing a total of 4.1% of the I&E budget. The Commission plans to develop materials for distribution to buyers of ATVs warning of the dangers of their use, with special emphasis placed on parents of children under 12. ATV dealers will be asked to help distribute the material.

o Activities planned for child drownings will total $172,000, which represents 6.8% of the total I&E budget. Public service announcements informing parents and other child caretakers of the hazards of residential swimming pools will be produced and distributed. Other informational materials will also be developed with the assistance of industry organizations, the American Red Cross, the Recreation and Parks Association, etc.

o For the Older Consumer project, we plan to follow up on recommendations from the National Conference on Safety for Older Consumers by participating in voluntary standards activities to address products of particular concern to older people. State and local agencies on aging will be encouraged to conduct seminars for older people to train them to use the "Home Safety Checklist." Based on findings of a study by the Centers for Disease Control, new product hazards and accident patterns will be addressed in CPSC's publications and will be distributed to older people through national network of business, media, and groups serving older consumers. Funds designated for this purpose are $231,000, or about 9.2% of the overall I&E budget.

The I&E components of these three priority projects comprise $506,000, or 20.1% of the total I&E budget.

EXPLANATION OF OCTOBER - JANUARY BUDGET CHANGES

Question: Would you please provide, for the record, a descriptive comparison for each agency program between October 1985 - FY 1987 Budget and the January 1986 - FY 1987 Budget?

Answer:

EXPLANATION OF CHANGES
October to January Budgets

Commission Policy Development Program (-$127,000)

- One FTE in the Office of Congressional Relations and one in the Office of Equal Employment Opportunity and Minority Enterprise were eliminated. The dollar decrease is a result of the salary savings from these positions and an overall 10% administrative cost reduction.

Executive Direction Program (+$109,000)

- The dollar increase is a result of the reallocation of funds to implement management review decisions. This increase is offset by the salary savings of 1 FTE reduction in the Office of Budget, Program Planning and Evaluation and a 10% administrative cost reduction.

Emerging Hazards Program (-$7,000)

- There are no significant changes in this program.

Fire and Thermal Burn Program (-$396,000)

- The decrease in resources is due to the elimination of the kerosene heaters project, upholstered furniture project, and reduced resources in the gas appliances project.

Electrical Hazards Program (-$209,000)

- The reduction is a result of the elimination of the feedback electrical system, heat tape, and micro-circuitry projects.

Chemical Hazards Program (-$204,000)

- The reduction in resources is due to a decrease in the glycol ethers project and elimination of the strong sensitizers project.

Children's and Recreational Products Program (+$12,000)

- There are no significant changes in this program.

Power Equipment Program (-$357,000)

- The decrease is largely due to deferring the contract to investigate riding mowers until 1988. Staff determined that preliminary work would not be completed until the end of 1987, and therefore this contract could be deferred without hindering progress on the riding mower effort. Also, resources were reduced for the garage door openers project.

Household Structural Products Program (-$92,000)

- The reduction is a result of the elimination of a voluntary standard project on pressed wood and extension ladders.

Hazard Identification and Analysis Program (-$309,000)

- The decrease is due to a reduction in resources for collecting non-NEISS data and an administrative cost reduction.

Engineering and Sciences Program (-$122,000)

- The decrease is a result of the elimination of 2 managerial positions in this program and an administrative cost reduction.

Information and Education Program (-$190,000)

- The decrease is due to a reduction in resources for the hotline, distribution services for publications, and a 10% administrative cost reduction.

Compliance and Enforcement Program (-$207,000)

- The reduction is a result of reduced personnel resources for Section 15 activities and an administrative cost reduction.

Field Activities Program (-$378,000)

- The decrease is due to the reduction of 5 regional office managerial positions and a 10% reduction in administrative/operating costs.

Administrative and General Support Program (-$170,000)

- The decrease is due to elimination of 3 FTEs, and a 10% administrative cost reduction.

FY 1986 - FY 1987 PROGRAM CHANGES

Question: Last year, you provided the Subcommittee with a detailed list of anticipated program changes between FY 1985 and FY 1986.

Would you please provide, for the record, a similar listing of programs showing the anticipated changes from FY 1986 to FY 1987?

Answer:

EXPLANATION OF CHANGES
1986 to 1987

Commission Policy Development Program (-$192,000)

- The decrease is due to salary savings of 6 FTEs: three in the Office of the General Counsel; one in the Office of the Secretary; one in the Office of Congressional Relations; and one in the Office of Equal Employment Opportunity and Minority Enterprise.

Executive Direction Program (+$125,000)

- The increase is a result of the addition of funds to implement management review decisions, offset by the salary savings of 1 FTE eliminated from the Office of Budget, Program Planning and Evaluation.

Emerging Hazards Program (+$195,000)

- The increase in funds is due to the addition of resources to the Product Safety Assessment/Section 15 project and the New Project Identification effort. Four FTEs were added to the program.

Fire and Thermal Burn Program (-$1,670,000)

- The decrease is due mainly to the elimination of contract funds for the cigarette safety study. In addition, the kerosene heaters and upholstered furniture projects were eliminated; and the gas appliances, fire toxicity and wood heating equipment projects were reduced in resources. In total 9 FTEs were eliminated.

Electrical Hazards Program (-$340,000)

- The decrease is due to completion of the portable electric heater project; fewer resources for electrocution hazards and fire investigation projects; and elimination of the microcircuitry and extension cords projects. This decrease is offset slightly by a higher resource effort in the electrical outlet project.

Chemical Hazard Program (-$452,000)

- The decrease, including a 6 FTE reduction, is due to the elimination of the strong sensitizers and textile finishes projects; the completion of the children's chemical hazards project, although the voluntary standard efforts will continue under a new voluntary standards project in 1987; and slightly lower resource efforts for indoor air quality, chlorocarbon products, emerging chemical hazards, and the asbestos in the home projects. These decreases have been partially offset by the addition of the glycol ether and FHSA labeling projects.

Children's and Recreational Products Program (+$147,000)

- The increase is a result of the addition of resources for the bicycle and playground equipment projects.

Power Equipment Program (-$352,000)

- The reduction in this program is due to lower resource needs for the riding mower, all terrain vehicle, and chain saw projects in 1987.

Household Structural Products Program (+$190,000)

- The increase is due to additional resources allocated to the child drownings project and resources for a new older consumers project.

Hazard Identification and Analysis Program (-$135,000)

- The reduction is due to a slight reduction in the non-NEISS data collection project and a reduction in computer costs.

Engineering and Sciences Program (-$121,000)

- The decrease is a result of the elimination of 1 FTE in Health Sciences Support and a decrease in funds for equipment purchases at the engineering laboratory.

Information and Education Program (-$145,000)

- o The decrease is due to the reduction in resources for the hotline, publication distribution services, and ongoing/seasonal projects. These decreases were offset slightly by the additional two 1987 priority information campaigns -- Child Drownings and Safety for Older Consumers.

Compliance and Enforcement Program (+$5,000)

- o There are no significant changes in this program.

Field Activities Program (-$253,000)

- o The decrease is a result of salary savings due to the elimination of 5 managerial positions in the regional offices and 1 support position.

Administrative and General Support Program (-$47,000)

- o There are no significant changes in this program.

OBJECT CLASS INFORMATION BY PROGRAM

Question: Would you please provide, for the record, a table showing the estimated distribution of the requested FY 1986 funding by Object Classification (grouping categories 11-13, but separating each of the categories 21-42 listed on Page 99 of your justification) for the following resource categories:

- o Commission Policy and Direction
- o Product Safety and Enforcement (subtotal)
  - Executive Director
  - Hazard Programs
  - Ongoing Activities
- o Administration and General Support

Please also provide the actual distribution for FY 1985.

Answer: The requested information is not readily obtainable and summarized in any records kept at the Commission, including data accumulated by the accounting and management information systems. Object classification estimates are generally made in total and/or by office, and each office may work on numerous individual projects and programs. In order to respond to this request, several assumptions have been made regarding past and future obligation patterns. Salaries and most operating costs, for example, were prorated between hazard programs and ongoing activities. The data provided in the following table represent our best estimate as to how object classification data relate to programs supported by the agency (dollars are shown in thousands).

Object Classification Data

1985	11.0-13.0 Personnel	21.0 Travel	22.0 Transportation	23.1 SLUC	23.2 Commun./ Utilities	24.0 Printing	25.0 Services	26.0 Supplies	31.0 Equipment	42.0 Ins. Claims	Total
Comm. Policy Development......	$3,177	$46	--	$257	$223	$33	$9	$16	$11	--	$3,772
Prod. Safety/Enforcement:											
Executive Direction.........	827	27	--	53	26	2	232	7	6	--	1,180
Hazard Programs.............	5,501	183	--	603	411	188	3,497	136	222	--	10,741
Ongoing Activities..........	10,692	290	$38	1,119	763	350	2,331	253	413	--	16,249
SUBTOTAL..............	17,020	500	38	1,775	1,200	540	6,060	396	641	--	28,170
Admin./Gen. Support...........	3,043	32	--	331	180	--	221	13	11	--	3,831
TOTAL.................	$23,240	$578	$38	$2,363	$1,603	$573	$6,290	$425	$663	--	$35,773

1987	11.0-13.0 Personnel	21.0 Travel	22.0 Transportation	23.1 SLUC	23.2 Commun./ Utilities	24.0 Printing	25.0 Services	26.0 Supplies	31.0 Equipment	42.0 Ins. Claims	Total
Comm. Policy Development......	$3,211	$62	--	$229	$84	--	$20	$18	$5	--	$3,629
Prod. Safety/Enforcement:											
Executive Direction.........	882	23	--	72	26	--	337	14	9	--	1,363
Hazard Programs.............	5,245	203	--	528	461	$167	1,578	115	95	--	8,392
Ongoing Activities..........	9,698	406	$33	1,058	1,218	335	2,882	229	189	--	16,048
SUBTOTAL..............	15,825	632	33	1,658	1,705	502	4,797	358	293	--	25,803
Admin./Gen. Support...........	2,960	6	--	277	103	2	203	7	5	5	3,568
TOTAL.................	$21,996	$700	$33	$2,164	$1,892	$504	$5,020	$383	$303	$5	$33,000

NUMBER OF COURT SUITS

Question: Would you please update, for the record, the number of court suits CPSC has initiated in each year from FY 1980 through FY 1985?

Answer: The number of federal court suits initiated in each year is:

1980 - 12
1981 - 9
1982 - 4
1983 - 1
1984 - 6
1985 - 6

Question: Would you also provide , for the record, the name of each suit initiated in 1985 and 1986 to date together with a brief, one sentence description of each?

Answer: The information is as follows:

1985

U.S. v. B&L Fireworks, et al., (W.D. Mo.)

Suit to enjoin sale of banned fireworks was settled by consent decree.

U.S. v. Inventive Packaging Corp. et al., (D. Colo.)

Suit to enjoin the manufacture and sale of prescription vials which were not child resistant was settled by consent decree.

U.S. v. An Article of Misbranded Drugs Consisting of 71,000 Packages, (D. Mass.)

Action for seizure and condemnation of iron tablets in containers which were not child resistant was settled by consent decree.

U.S. v. Articles of Banned Hazardous Substances (Baby Cribs), (E.D. N.Y.)

Action for seizure and condemnation of baby cribs was settled by consent decree.

U.S. Articles of Misbranded Hazardous Substances Consisting of 7,000 Containers, (E.D. Mich.)

Action for seizure and condemnation of misbranded containers of flammable fluid was settled by consent judgment.

U.S. v. J.P. Waltenbaugh d/b/a Liberty Industries, (E.D. Pa.)

Motion for an order to show cause why defendant should not be held in contempt for failure to comply with a consent decree of permanent injunction was granted.

1986

U.S. v. William Apothecary, Inc. et al., (M.D. Fla.)

Suit to enjoin the dispensing of prescription drugs in containers which were not child-resistant is pending.

U.S. v. Mid-South Pyrotechnics, Inc. et al., (N.D. Miss.)

Suit to enjoin distribution of banned fireworks is pending.

U.S. v. Professional Apothecary, Inc. et al., (D.D.C.)

Suit to enjoin the dispensing of prescription drugs in containers which were not child resistant was settled by consent decree.

U.S. v. Surf Drugs, Inc. et al., (S.D. Fla.)

Suit to enjoin dispensing of prescription drugs in containers which were not child resistant is pending.

U.S. v. Banned Toys, (D. Ariz.)

Action for seizure and condemnation of banned toys (clackerballs) is pending.

PRODUCT RECALLS

Question: How does the number of recalls conducted by the Commission in FY 1986 compare with prior years? Would you please update, for the record, the list provided on page 508 of your FY 1985 Senate Appropriation Hearing?

Answer: As of February 25, 1986, we have initiated 39 substantial product hazard corrective actions under Section 15 and 37 regulated product recall actions. The rate for regulated product recalls is up when compared to the last three years. For the substantial product hazard corrective actions, the rate appears fairly constant.

Substantial Product Hazard

FY	Number of Recall or other Corrective Action Initiated	Number of Units Involved	Number of Units Corrected to Date
1979	198	53,555,927	4,443,950
1980	132	23,310,834	3,629,726
1981	99	2,475,455	635,375
1982	91	2,570,117	460,913
1983	113	23,253,383	1,250,000
1984	106	7,094,427	1,710,609
1985	100	1,497,367	711,152

Regulated Product Recalls

FY	Number of Recall or other Corrective Action Initiated	Number of Units Involved	Number of Units Corrected to Date
1979	347	4,478,863	297,728
1980	456	11,793,910	5,067,560
1981	251	3,811,746	1,152,720
1982	72	1,073,455	610,234
1983	66	31,387,967	25,904,985
1984	66	1,176,900	406,930
1985	82	1,109,680	414,340

BILL LANGUAGE

Question: This year it appears that you are once again requesting that three provisions contained in the 1986 bill be deleted in 1987. These provisions are the references to:

- Hire of passenger vehicles
- GS-18 pay cap on consultant services
- Restricting funds to the acquisition and conversion of existing laboratories.

Could you explain the reason for each of these proposed changes?

Answer: These provisions were deleted by the Office of Management and Budget (OMB). Apparently, OMB's proposal was made in the belief that the general provisions of the HUD-Independent Agency Appropriations Act authorize us to lease passenger vehicles and utilize the services of consultants, which would make the appropriations language redundant. The language regarding the acquisition and conversion of laboratories was not in the 1986 bill and is therefore not proposed for deletion.

Further analysis of the relevant statutes indicates that, with these citations in our appropriation language, the Commission's authority to lease cars and use consultants is at best questionable. Two specific provisions [31 U.S.C. 1343 (b) and 5 U.S.C. 3109 (b)] clearly state that such authority is granted only as specifically provided by other laws. Thus, the Commission still requires separate statutory authorizing language, which would not be unequivocally provided by either our appropriation legislation or the Consumer Product Safety Act.

While annual expenditures for leased vehicles and consultant services are not normally very great, we rely heavily on these mechanisms for carrying out our program mandate. Cars are leased primarily for use by product safety investigators in the regional offices and resident posts, assisting them in the conduct of product investigations, recall checks, site visits, and related activities.

The need for appointing consultants is generally determined on an ad hoc basis when particular expertise is necessary and not available within the Commission. Our authority to use these administrative mechanisms could be restored either by replacing the deleted language provisions, or by referencing the Consumer Product Safety Commission in the appropriate sections of the general provisions.

1987 PRIORITY PROJECTS

Question: For 1987, you have identified six priority areas. These are:

- All Terrain Vehicles
- Child Drowning
- Poison Prevention
- Riding Mowers
- Fire Toxicity - formerly called Toxicity of Combustion Products
- Safety for Older Consumers

Would you please briefly indicate for each of the priority areas:

- The amount of money that is being allocated to each area in 1986, the funding provided in the past, and how many years in the past the project was a priority area.
- The change in funding in each priority area from the OMB budget request level.
- The implication of this change in terms of the activities that will be conducted.

Answer:

Priority Project	1984	1985	1986	1987
1. All Terrain Vehicles	--	--	$1,099	$864
2. Child Drownings	--	--	--	452
3. Poison Prevention	--	--	--	484
4. Riding Mowers	--	$725	412	382
5. Fire Toxicity	$553	935	800	619
6. Safety for Older Consumers	204	310	--	383

There was a $300,000 reduction from the OMB budget request level in the riding mower project. These funds had been budgeted to develop a computer model to test dynamic stability. The funds were scheduled to be spent at the end of 1987 but program staff have determined that, since preliminary work would not be completed until the end of the fiscal year, the contract can be planned for the 1988 budget. Therefore the reduction will not have a significant impact on planned activities.

PRIORITY PROJECTS

Question: Would you please submit the information provided in your budget justification for each priority project for the record?

Answer:

1. ALL-TERRAIN VEHICLES (ATVs)

HAZARD AND INJURY DATA

The Commission estimates from its National Electronic Injury Surveillance System (NEISS) that the number of hospital emergency room treated injuries associated with ATVs in 1984 was 66,956. This is almost two and one-half times the estimated number of injuries in the previous year and more than seven times the estimated number in 1982. For the first nine months of 1985 (January 1 to September 30, 1985), the estimates of ATV-related injuries treated in hospital emergency rooms is 78,000, which is approximately 44 percent higher than the estimated injuries treated during the same time period in 1984.

The Commission has reports of 374 ATV-related fatalities which occurred between January 1982 and September 1985. These death reports came from a number of sources, including death certificates, Medical Examiners and Coroners, and news clips. Reporting of death certificates by the states is not yet complete for 1983, 1984, and 1985 because reports of deaths sometimes lag significantly behind the actual event.

OBJECTIVES

The Consumer Product Safety Commission has preliminarily determined that there may be an unreasonable risk of injury associated with the use of All-Terrain Vehicles. On April 3, 1985, the Commission voted to commence a rulemaking proceeding by issuing an ANPR. At that time, the Commission also adopted a number of measures intended to assist it in obtaining further information on the hazards associated with ATVs. The goal of this project is to significantly reduce ATV injuries and fatalities by:

1. Conducting surveys of ATV injuries and consumer exposure to obtain detailed information on ATVs, and preparing hazard analyses.

2. Conducting engineering, human factors, and medical analysis of the hazards associated with ATVs and their use.

3. Monitoring the development of any voluntary standards for ATVs, pending review of future data and industry activity.

4. Sharing information with user groups and State, local, and federal officials.

5. Monitoring the ATV industry's education and training effort, including assisting or strengthening the industry effort.

MILESTONES

FY 1985

- The Commission voted to establish a priority project on ATVs by approving a seven point action plan, including commencing a rulemaking proceeding by issuing an Advance Notice of Proposed Rulemaking (ANPR).

- Commission staff and Specialty Vehicle Institute of America (SVIA) initiated voluntary standards development and prepared a draft.

- ATV Task Force commented on the voluntary standard for ATVs and sent it to the SVIA.

- Testified at the May 21, 1985 Hearing of the Commerce, Consumer and Monetary Affairs Subcommittee of the Committee on Government Operations.

- Held public hearings in: Jackson, Mississippi; Dallas, Texas; Concord, New Hampshire; and Milwaukee, Wisconsin.

- Advance Notice of Proposed Rulemaking published in the Federal Register.

- ATV Clearinghouse sent out two mailings to interested parties.

FY 1986

- Public Hearing: Los Angeles, California, and Anchorage, Alaska.
- Preliminary report on survey of ATV related injuries will be prepared.
- Monthly Voluntary standards meetings to discuss performance characteristics requirements.
- Complete technical work, including hazard analysis, exposure survey, and engineering, human factors and medical analyses.
- Prepare options paper for Commission consideration.

FY 1987

- Conduct a preliminary epidemiological and medical evaluation to analyze the effectiveness of the voluntary standard.
- Conduct human factors analyses to determine effectiveness of proposed design changes, education material and labeling in reducing the number of injuries and deaths.
- Conduct engineering test on ATVs to evaluate the effectiveness of proposed design changes in the voluntary standard.

MEASUREMENT OF EFFECTIVENESS

The measure of effectiveness in death and injury reduction resulting from Commission activities will depend upon the Commission decision on regulatory options for All-Terrain Vehicles. The effectiveness of Commission activity can be measured by using Commission death certificate, injury and economic data.

CHILD DROWNINGS

HAZARD AND INJURY DATA

Each year over 600 people drown in backyard swimming pools in the United States. Of these, almost 300 are children less than five years old and 200 are children under two years of age. Additionally, about 2000 children under five are treated each year in hospital emergency rooms for submersion injuries. These incidents frequently leave a child permanently incapacitated. The economic and social costs of these incidents are tremendous.

OBJECTIVES

The objective of this project is to reduce the number of child drownings and near drownings in residential swimming pools and spas. To accomplish this objective the Commission will:

1. Inform parents and other caretakers of children about the hazard of residential pool drowning.
2. Analyze the data collected in 1986 on child drownings in order to develop a better understanding of the circumstances surrounding the incidents.
3. Participate in the work groups to address child drownings established following the 1985 National Pool and Spa Safety Conference.

MILESTONES

FY 1986

- Initiate a special epidemiology study on child drownings.
- Participate in the Ad Hoc Subcommittee activities on pool safety.
- Establish a data clearinghouse on drowning and diving injuries.

FY 1987

- Analyze the Special Study on Child Drownings conducted during the 1986 swim season.
- Evaluate the effectiveness of barriers and alarms that have been recommended.
- Maintain an injury and information materials clearinghouse.
- Conduct an information program to inform parents and other caretakers of children of the potential hazard of residential swimming pools.
- Review the State/local codes for swimming pool barriers for those states that have the largest number of pool drownings.

MEASUREMENT OF EFFECTIVENESS

It is difficult to estimate at this time the reduction in the number of child drownings that will result until more is known about the circumstances surrounding the drownings and some action can be implemented to address those circumstances.

CPSC should be able to obtain a reliable measurement of the effectiveness of its work in this project by using the death certificate data base.

3. FIRE TOXICITY

HAZARD AND INJURY DATA

Residential fires are responsible for approximately 4,300 deaths annually. Of these, over two-thirds are estimated to be caused from the inhalation of toxic gases rather than burns. Estimates of injury made from National Fire Protection Association and U.S. Fire Administration data attribute approximately 15,000 injuries annually to smoke inhalation.

OBJECTIVES

The ultimate objective of this project is to reduce the toll of death and injuries resulting from the inhalation of toxic combustion products. This could be accomplished by reducing the toxicity of the fire environment, thereby increasing the likelihood of escape or rescue before fatal exposure occurs. Objectives to be accomplished in support of this goal include:

1. Identifying materials used in consumer products which, when combusted, generate highly toxic gases.
2. Determining the relationship of laboratory combustion toxicity tests to the toxicity hazards generated in full scale room fires.
3. Utilizing fire hazard assessment model(s) to develop the capability to predict toxicity and to guide the selection of materials to reduce the total combustion toxicity hazard.
4. Focusing Federal, State, local, and industry activities in combustion toxicity to enhance effective communication between projects, to prevent duplication of efforts, to more rapidly further the advancement of knowledge in this area, and to form a consensus on appropriate actions to reduce death and injury from toxic combustion products.

MILESTONES

FY 1984

- o Determined the relative toxicity of 10 materials, alone or in combination, used in upholstered furniture.
- o Reviewed literature covering the toxic combustion products generated by 10 plastics.
- o Focused Federal activities in the field of fire toxicity. Arranged a public symposium on the state-of-the-art and issued reports on activities.

FY 1985

- Determined the relative toxicity of an additional 18-22 materials used in consumer products.
- Reviewed literature on the toxic combustion products generated by an additional 10 plastics.
- Initiated a program to investigate the relationship of laboratory combustion toxicity tests to the toxicity hazard generated in full scale room fires.
- Initiated a program to determine physiological parameters which are better indicators to relate the ability of an individual to escape and survive a fire situation.
- Investigated the available hazard assessment models to determine which are most appropriate for use by CPSC to determine materials and techniques which will reduce the combustion toxicity hazard.
- Continued to focus Federal, State, and local activities in the area of combustion toxicity; held periodic meetings, issued reports, began joint efforts, and participated in voluntary standards activities.
- In conjunction with the EPA, FAA, and Department of the Navy, initiated a study at the National Academy of Sciences to investigate physiological and behavioral end points, the use of fire hazard assessment models, and developed guidelines to apply fire toxicity data to the materials selection process.

FY 1986

- Continue determination of combustion toxicity of additional materials as indicated.
- Complete the study at the National Academy of Sciences which will include guidelines for application of appropriate fire toxicity data to the materials selection process.
- Complete the determination of the relationship of the laboratory combustion toxicity tests to the toxicity hazard generated in full scale room fires.
- Use fire hazard assessment model(s) to estimate the contributions of various consumer products to the total fire hazard.
- Expand liaison activities to include Federal, State, local, and industry activities in the form of an advisory group, joint investigative activities, and standards setting.

- Actively participate in voluntary standards organization(s) (ASTM E 5.21 and E 5.39) to achieve the adoption of appropriate toxicity protocols and total hazard assessment models to allow for the prediction of toxicity and guide the selection of materials to reduce the total combustion toxicity hazard.

FY 1987

- To provide a basis for recommending voluntary standard changes the Commission will: (1) obtain cost benefit information on the cost of possible substitute materials; (2) obtain results on large to small scale test comparisons; and (3) maintain state-of-the-art capabilities in fire hazard modeling techniques.
- Continue to participate with the ASTM to develop appropriate voluntary standards to reduce the total combustion toxicity hazard.
- Cooperate with other Federal organizations, State and local jurisdictions, and industry groups to make recommendations for standards for product modification or usage to reduce the overall fire hazard and number of deaths caused from the inhalation of toxic combustion products.

FY 1988

- Continue to cooperate with standard setting organizations and building code officials to ensure acceptance and compliance with the voluntary efforts.

MEASUREMENT OF EFFECTIVENESS

The effectiveness of this project will be measured by the eventual reduction of deaths and injuries from combustion toxicity. These measurements will be based on estimates calculated from data from the U.S. Fire Administration and The National Fire Protection Association in conjunction with CPSC in-depth investigations.

4. POISON PREVENTION

HAZARD AND INJURY DATA

In 1984, an estimated 156,000 children under age five were treated in hospital emergency rooms for accidental ingestions, chemical burns, and other acute injuries associated with household chemical products. Accidental ingestions accounted for 84 percent of these injuries. The most recent data from the National Center for Health Statistics show 55 deaths in 1983 resulting from accidental ingestion of household chemical products by young children.

Data from poison centers indicate that prescription drugs alone, of the product categories regulated under the PPPA, have not shown the dramatic decline in ingestions seen for the other categories. A study conducted by one regional poison center showed that a large percentage of accidental prescription drug ingestions involved grandparents' medication and/or medication that was not in child-resistant packaging prior to the ingestion incidents.

OBJECTIVES

The goal of the project is to reduce exposure of young children to hazardous household chemicals by assessing the need for special packaging of unregulated chemical products, and by increasing the effectiveness of current special packaging regulations. Specific project objectives are:

1. Maintain the "Children and Poisonings" data base. Monitor data bases and literature to identify chemical products involved in serious injury or death to young children. Monitor the transfer of drugs from prescription to over-the-counter status; determine need for special packaging of transferred drugs.

2. Evaluate the impact of non-child-resistant packaging and grandparents' medication on accidental childhood ingestions of prescription drugs. Develop and implement education programs directed at older consumers, or at other populations at risk of exposing young children to prescription drugs.

3. Complete revisions of the PPPA testing protocol to (1) include older adults in evaluating the effectiveness of child-resistant packaging, and (2) improve the efficiency of child testing.

4. Evaluate factors which affect the proper use of special packaging designs by adult user groups. Develop human factors data which can be used to assist manufacturers in improving performance and quality of special packaging.

MILESTONES

FY 1983

- Developed comprehensive text on the PPPA and its regulations for use by pharmacy students, phramacists, and physicians. Pilot tested text in 30 pharmacy schools, distributed text to all U.S. pharmacy schools and to other professional health organizations. Text is widely used by Field staff in pharmacy enforcement action.

- Conducted PPPA educational seminars for practicing pharmacists in 36 cities. Negotiated with State Boards of Pharmacy to award continuing education credits for participation in the seminars.

- Developed protocol for consumer survey to determine impact of dual-purpose packaging on accidental childhood ingestions. Developed and let contract for pilot study to determine feasibility of collecting pertinent data from consumer survey.

- Published Advance Notice of Proposed Rulemaking to revise the PPPA testing protocol. Prepared and awarded contract for testing to verify suggested revisions to the protocol.

FY 1984

- Conducted PPPA educational seminars for practicing pharmacists in 26 cities.

- Conducted a pilot study with a major poison control center to evaluate the impact of dual purpose packaging on childhood ingestions of prescription drugs.

- Conducted a study, jointly with the FDA, to evaluate older consumers' ability to use packaging that is both child-resistant and tamper-resistant.

- Conducted PPPA protocol tests to verify revisions to the protocol that would (1) include older adults in the testing, and (2) reduce the number of children tested.

FY 1985

- Completed PPPA protocol tests to verify revisions to the test protocol.

- Evaluated results of pilot study to determine impact of dual-purpose packaging on childhood prescription drug ingestions. The study showed a high involvement of grandparents' medication in such ingestions and also, a high incidence of non-child-resistant prescription vials in homes with young children. Developed model and awarded contract for a nationwide study to determine if these data are representative of the nation as a whole, or are simply regional phenomena.

FY 1986

- Complete recommendations for adult and child protocol testing revisions and propose revisions.

- Work with American Veterinary Medical Association on effort for voluntary special packaging of household veterinary prescription drugs.

- o Complete regional surveys of prescription drug ingestions to determine impact of non-child-resistant packaging and grandparents' medication on accidental ingestions.

- o Complete action on petition to exempt Alka-Seltzer products from special packaging standards.

FY 1987

- o Complete analysis of results of prescription drug ingestion survey and develop recommendations. Develop and implement education programs directed at population at risk of exposing young children to prescription drugs.

- o Complete final adult and child protocol revisions.

- o Award contract to develop human factors data for use in designing child-resistant packaging that is amenable to use by older consumers.

FY 1988

- o Continue revision, as necessary, and distribution of adult educational materials.

- o Continue contract to develop human factors data.

FY 1989

- o Complete contract to develop human factors data for use in designing child-resistant packaging that is amenable to use by older consumers. Analyze results and develop recommendations.

MEASUREMENT OF EFFECTIVENESS

To measure the effectiveness of this project, the Commission will monitor data from NEISS, poison control centers and other data bases to determine reductions in accidental childhood ingestions.

5. RIDING MOWERS

HAZARD AND INJURY DATA

An estimated 100 deaths each year are associated with riding mowers and garden tractors. These products were involved in an estimated 50,000 medically-attended injuries in 1984. The major hazard associated with the use of riding mowers and garden tractors is blade contact. Approximately 80 percent of the fatal accidents involve three hazard patterns: (1) mower tipover, (2) victim falls under or is run over by mower (incidents involving young children fall in this category), and (3) victim is thrown from or falls off the mower. Additionally, a significant portion of riding mower injuries involve amputations, fractures and dislocations. The risk of injury associated with a riding mower is 50 percent higher than the risk with a walk-behind mower. The rate of hospitalization for riding mowers is almost twice the average rate for all injuries reported through the Commission's National Electronic Injury Surveillance System (NEISS).

OBJECTIVES

Reduce the annual deaths and injuries associated with riding mowers by:

1. Collecting and analyzing additional injury, human factors and engineering data needed to support Commission recommendations and to evaluate industry proposals.
2. Participating with industry in the ongoing effort to upgrade the voluntary standard to address (1) dynamic stability, (2) blade control, (3) backover/runover, and (4) safety instructions.
3. Informing the public about safe use and maintenance practices to minimize the hazards associated with the use of riding mowers and garden tractors.

MILESTONES

FY 1984

- Developed and supported recommendations for voluntary standards requirements for operator presence controls, minimum seat back height, dynamic turn tests, and sudden traction tests.
- Commented on OPEI proposed revisions to ANSI B71.1 Standard.
- Met quarterly with OPEI Riding Mower Working Group.

FY 1985

- Collected injury data on riding mowers, lawn and garden tractors for the 1985 mowing season, and assigned on-site investigations for all deaths identified through the FY 1983, FY 1984, and FY 1985 death certificates or through the MECAP reports and newsclips.
- Conducted limited testing of prototype mowers.
- Met quarterly with OPEI Riding Mower Working Group.
- Completed the first Human Factors Contract, "Analysis of Warning Devices for Riding Type Lawn Mowers".

- Awarded contract for "Evaluation of the Effectiveness of Riding Mower Warning Devices".

- Awarded a two year contract to develop a field test method and a computer simulation model to assess the dynamic stability of riding mowers.
- Briefed the Commission on the project progress.

FY 1986

- Meet quarterly with OPEI Riding Mower Working Group.

- Continue hazard analysis, engineering analysis, and human factors analysis.

- Monitor Phase 1 of the two-year contract to develop a field test method and a computer model to evaluate dynamic stability of riding mowers.

- Complete Human Factors contract for "Evaluation of the Effectiveness of Riding Mower Warning Devices".

FY 1987

- Continue hazard analysis, engineering analysis, and human factors analysis of injury data.

- Meet quarterly with OPEI Riding Mower Working Group on results of work regarding back-over and tip-over accidents.

- Complete Phase 2 of the two-year contract to develop a field test method and a computer model to evaluate dynamic stability of riding mowers.

FY 1988

- Recommend standard improvements to OPEI Riding Mower Working Group.

MEASUREMENT OF EFFECTIVENESS

The measure of effectiveness in death and injury reduction resulting from Commission staff activities will be dependent upon recommendations made and accepted by ANSI and the effective dates of the updated requirements. After Commission staff recommendations are approved, an estimate of reduction can then be made. The effectiveness of Commission activity can be measured by using Commission death certificate, injury and economic data.

SAFETY FOR OLDER CONSUMERS

HAZARD AND INJURY DATA

Census Bureau statistics show that the population of Americans 65 years and older has increased dramatically in recent years and will continue to grow. Between 1970 and 1980, for example, this population has increased by 5.5 million. In 1982, a record 11.6 percent of America's population was 65 or older, and the proportion of elderly will increase to 12.2 percent by the year 2000.

The elderly are particularly vulnerable to accidental injury. Changes in vision and muscular agility and loss of speed in reacting to stimuli or adapting to new environments, coupled with tendencies for bones to break more easily and heal more slowly, may predispose the elderly to more severe or lasting injuries. Although the elderly may suffer accidental injuries less frequently than do younger people, when an injury occurs it is much more likely to be fatal. In 1983, the cost of medically attended injuries to persons 65 or older totalled an estimated $3 billion. In 1981 medical expenses for the elderly made up 1/3 of the nation's total health expenses of $225 billion. Of the $83 billion spent on health care for the elderly, 64 percent, or $53 billion, was paid for by Medicare, Medicaid or other Federal government programs. Given the increasing proportion of elderly and the continuing medical care price increases in excess of the overall consumer price index, the need for accident prevention measures is apparent.

OBJECTIVES

To reduce the risk of accidental injury and death to older consumers by:

1. Encouraging State and local agencies to initiate safety audit programs within their areas, and assist State and local authorities and other groups in using the CPSC "Home Safety Checklist" to audit the homes of older consumers to identify product hazards.

2. Promoting safety of older consumers to the public through national media, cooperative efforts with major national organizations and businesses, and distribution of information to the public.

3. Producing a safety design guide for consumer products.

4. Working with manufacturers to develop a voluntary standard for step stools.

MILESTONES

FY 1984

- Developed a Home Safety Checklist that older consumers can use to reduce hazards and improve safety in their homes.

- Worked with the Administration on Aging and other appropriate groups that serve or represent the elderly to implement a pilot home safety audit program at a selected site.

- Conducted the pilot home safety audit program in a sample of approximately 2,000 households (including single family homes, apartments, mobile homes, etc.) headed by older consumers (i.e., persons 65 years of age and older).
- Collected pre- and post-audit information in order to evaluate the home safety audit program and to compare it with other information dissemination techniques (i.e., mailing information to consumers).

FY 1985

- Contractor completed analysis of pre- and post-audit data and issued final evaluation report.
- The pilot home safety audit program was found successful, therefore was implemented nationwide.
- Provided information on the strategies developed and lessons learned during the course of the pilot project to organizations serving older people.
- Invited interested Federal, State, and local government officials, media, organization and business representatives to a public meeting to discuss the pilot program and to consider implementing similar or related programs.
- Worked with organizations and communities to establish home safety audit programs in which older consumers used the CPSC "Home Safety Checklist" to audit their own homes to identify product hazards.
- Worked with organizations, businesses and media to promote distribution of safety information for older consumers.

FY 1986

- Safety for Older Consumers is an "ongoing" (non-priority) project in FY 1986. Contacts with State and local agencies serving older people will be maintained.

FY 1987

- Follow up on recommendations from the National Conference on Safety for Older Consumers by participating in voluntary standards activities to address products of particular concern to older people.
- Encourage state and local agencies on aging to conduct seminars for older people to train them to use the "Home Safety Checklist."

- Address new product hazards and accident patterns, based on findings of a study by the Centers for Disease Control, through CPSC publications distributed to older people through a national network of business, media, and groups serving older consumers.

MEASUREMENT OF EFFECTIVENESS

The effectiveness of the project will be measured by determining changes in older consumers' awareness of potential hazards in their homes and the extent to which changes were actually made to improve safety in the home. In addition, the success of the project will be measured in determining the extent to which organizations serving the elderly, both governmental and private organizations, have disseminated information to the older consumers or incorporated the home safety audit program into their ongoing programs.

PRIORITY PROJECTS

Question: The concept of priority projects is one that this Subcommittee urged you to adopt. The objective was to identify a specific product where there was a dramatic rise in frequency and severity of accidents. By focusing the agency's attention and providing extra funding for a limited period of time (perhaps four or five years), it was felt that specific product-oriented changes could be made to ameliorate the situation. On several occasions, the Subcommittee has cautioned you on avoiding generic priority projects where the extra funding might be spread too thin to produce measurable reductions in accidents or their severity.

In our hearing last year when we asked you why had you removed safety for older consumers from your priority list for FY 1986, you replied that materials to prevent accidents had been and were being distributed, and that you were following up other recommendations through our voluntary standards. This implies that the main work in this area has been accomplished.

How can the CPSC reconcile the congressional objectives of a priority project and the decision to make safety for older consumers a priority project for FY 1987 after having completed the high-level activities in the past and removing it from the list in FY 1986?

Answer: The Commission feels that the FY 1985 safety for older consumer project was highly successful. One of its components, the home safety audit program, was implemented nationwide. Subsequently, at a conference held in September of 1985 in Philadelphia cosponsored by the Commission and the American Society for Testing and Materials (ASTM), a number of recommendations were made on additional activities that could be undertaken to improve the safety of older citizens.

Thus, during FY 1986, the safety for older consumers project remained an ongoing agency activity, even though it was not formally one of CPSC's priorities. Among other things, CPSC's contacts with state and local agencies serving older consumers were maintained during that time.

In addition, the American Association of Retired Persons (AARP) urged the Commission to continue its emphasis on Safety for Older Consumers in FY 1987. AARP, which has over 19 million members, 5,000 local chapters, and a network of 20,000 program volunteers nationwide, is planning to initiate a major national educational campaign in 1986 aimed at improving the safety of living conditions for older Americans. Both AARP and the Commission believed that the FY 1987 priority project would enhance and help to perpetuate this important educational and injury prevention effort.

It therefore seemed to the Commission that the information gained and lessons learned through the success of the FY 1985 project and the Older Consumers Conference could be used in a cost-effective manner by returning older consumer activities to priority status in FY 1987. Some of the activities that the project encompasses include:

FY 1987

- o Following up on recommendations from the National Conference on Safety for Older Consumers by participating in voluntary standards activities to address products of particular concern to older people.
- o Encouraging state and local agencies on aging to conduct seminars for older people to train them to use the "Home Safety Checklist."
- o Addressing new product hazards and accident patterns, based on findings of a study by the Centers for Disease Control, through CPSC publications distributed to older people through a national network of business, media, and groups serving older consumers.

Question: Why don't you consider Child Drownings and Poison Prevention to be too broad in scope for priority projects?

Answer: Section 2(b) of the CPSA requires the Commission to promote research and investigation into the causes and prevention of product-related deaths, injuries and illness.

As a result of a joint conference last May cosponsored by CPSC and the National Spa and Pool Institute, the Commission obtained a better awareness of the tragic number of deaths and serious injuries occurring each year due to residential pool and spa drownings. Almost 300 of the 600 deaths annually are of children under age five. In addition, near-drownings result in severe disability to survivors, at a great emotional and economic cost to families and to society.

In an effort to address this tragedy, in FY 1986 the Commission initiated a special epidemiological study on child drownings. We will also participate in an ad hoc steering committee that will conduct work on pool safety. The Commission will act as a data clearinghouse and secretariat for this committee.

It seemed clear to the Commission that designating this activity as a priority project for 1987 could better focus key aspects of the effort to resolve the child drowning problem. The priority project will carry out several tasks: it will analyze the data from the special study conducted in FY 1986; it will evaluate the effectiveness of barriers, alarms, and other recommended safety devices; and it will conduct an information program to inform parents and other caretakers of children of the potential hazards associated with residential swimming pools. In formulating this project, the agency has worked successfully with trade associations, medical and nursing groups, water safety organizations, and other federal, state and local agencies. It seemed clear to us that the time had come to coordinate a nationwide effort directed at this growing problem.

As for Poison Prevention, there were several compelling reasons to make this a priority.

First, as you know, CPSC administers the Poison Prevention Packaging Act. Although we have been highly pleased that the regulations covering child-resistant packaging have been so successful in reducing the number of deaths and injuries from this source, there is still much work to be done. This year, 1986, is the 25th anniversary of Poison Prevention Week, and there is much to be proud of in the success of this unique government/industry/volunteer program. However, in 1984, the last year for which we have accurate figures, there were still an estimated 156,000 children under age five who were treated in hospital emergency rooms for accidental ingestions, chemical burns, and other acute injuries associated with household chemical products. Accidental ingestions account for 84% of these injuries. The most recent data from the National Center for Health Statistics show 55 deaths in 1983 resulting from accidental ingestion of household chemical products by young children.

Data from poison centers indicate that, of the product categories regulated under the PPPA, prescription drugs alone have not shown the dramatic decline in ingestions seen for the other categories.

Given these facts, the Commission felt it urgent to re-emphasize the need to protect young children from accidental poisonings. We felt this to be an appropriate time to make Poison Prevention a priority in order to insure that neither the government nor the public becomes complacent about this potential hazard.

The project will include a revision of the PPPA testing protocol to make sure that new generations of child-proof closures are effective while at the same time are usable by the elderly.

This will include a refinement of mechanical closure-testing equipment to give us more readily quantifiable data than we can get by using human subjects to test closures. We will also obtain the data needed to help manufacturers design child-resistant packaging that better meets the needs of older consumers. Finally, we will analyze the results of our 1986 survey to determine the impact of non-child-resistant packaging and grandparent's medication on the poisonings we see.

CIGARETTE SAFETY

Question: In your opening statement you have indicated the difficulty in completing the cigarette safety study without an appropriation of an additional $605,000.

I understand that in the past, the U.S. Fire Administration, part of the Federal Emergency Management Agency, provided $150,000, and that Health and Human Services provided about $6,000 for the transportation cost for a technical study group meeting.

It is unlikely that additional funds will be forthcoming from the Fire Administration which has been zeroed out in the 1987 Budget. Some of the burden should, therefore, be absorbed by Health and Human Services.

What exactly is proposed to be done for the $605,000?

Answer: The additional $605,000 required to complete the cigarette safety study would be used for the following five purposes:

1. Experimental Cigarettes Quality Control.........$100,000

Nearly 100 of 1,000 possible cigarette variations will be tested to assure that the physical characteristics of the experimental cigarettes conform to prescribed specifications.

2. Data Analysis..................................$130,000

Current and historic market and fire data related to cigarette fires will be obtained and analyzed to project estimated reductions in fire losses as a function of the various physical properties and burning characteristics of cigarettes. Data will be evaluated for reliability and used to support the mandated cost benefit study.

The cost of the data analysis is $210,000 of which $80,000 has been earmarked for this purpose to date.

3. Cost/Benefit Analysis..........................$250,000

The Act requires a cost/benefit analysis be made. To date $210,000 has been earmarked to develop the framework for a cost/benefit analysis, which will utilize results of experimental cigarette ignition propensity testing. As yet unfunded is the assessment of health effects and manufacturing feasibility of producing more fire-safe cigarettes. Also unfunded is the actual cigarette testing of "proposed cigarettes" which would be defined by the results of the cost/benefit study.

4. Management and Secretarial Support.............	$ 70,000

Report preparation and printing, programs management, administrative support services, logistical support of meetings, and liaison with state and local governments remain unfunded for 1987. Approximately $30,000 has been earmarked for technical writers to support report preparation.

5. Travel Cost Reimbursement......................	$ 55,000

Non-federal members (10) of the Technical Study Group are reimbursed for their travel and communications costs, as are members of subgroups and any invited speakers. No funds are available in 1987 for travel reimbursement.

TOTAL...............	$605,000

Question: Why can't some of these areas such as administrative costs, travel costs, and cost/benefit analysis be significantly reduced?

Answer: Estimated costs for these areas have already been reduced, through cuts suggested by both the Interagency Committee and the Technical Study Group, in addition to our own financial analysis. The current estimates represent what we are told is the minimum required to carry out the mandate of the Cigarette Safety Act.

RENT SAVINGS FROM MOVE

Question: Comparing the October budget to the February budget, it becomes apparent that you reduced your FY 1987 SLUC request by $110,000. Object Class 23.1 is the standard level user charge, or SLUC, which represents payments to GSA who manages space rented by the government.

Would you briefly explain what the $110,000 reduction in rental payment represents and how it is calculated?

Answer: The $110,000 reduction represents a savings of approximately $125,000 rent for the Logan Building, or one-half the annual cost. This has been partially offset by an anticipated increase in the cost of Westwood Towers space from $13.35 to $14.00 per square foot, of which we were recently informed.

Question: Why do we not see the $250,000 savings suggested by Acting Chairman Dawson?

Answer: Consistent with the requested appropriation language, the budget assumes that the Logan move would be completed by the end of March, 1987. Only one-half of the savings figure mentioned earlier would thus be saved during fiscal year 1987. Of course, the full $250,000 would be saved in each subsequent fiscal year.

It should be noted, however, that the majority of the Commission does not favor the proposal to consolidate the Commission's Washington, D.C. and Bethesda headquarters offices at the Bethesda location. While wishing to reduce administrative and operating costs wherever appropriate, the majority feels that the inaccessibility of the Bethesda office to representatives of media, consumer, business, trade and public interest organizations, with whom the Commission must work closely to carry out its statutory responsibilities in an effective manner, outweighs the dollar savings that would be realized from such a move. Also, the majority is concerned about how consistent consolidating in such a difficult-to-reach location is with the spirit of the Government in the Sunshine Act to which the Commission is required to adhere. However, the majority would be more than willing to consider consolidating the two offices in a location more accessible to those with whom it must deal if such a location can be identified.

SUBCOMMITTEE RECESS

The subcommittee will stand in recess until Thursday, February 20, at 10 a.m. in room SD–124, where we will hear testimony from the National Institute of Building Sciences, the Council on Environmental Quality, the Selective Service System, the Federal Home Loan Bank Board, and the Neighborhood Reinvestment Corporation.

Thank you very much. The subcommittee is recessed.

[Whereupon, at 11:52 a.m. Tuesday, February 18, the subcommittee was recessed to reconvene at 10 a.m. Thursday, February 20.]

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT-INDEPENDENT AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1987

THURSDAY, FEBRUARY 20, 1986

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 9:55 a.m. in room SD–124, Dirksen Senate Office Building, Hon. Jake Garn (chairman) presiding.

Present: Senators Garn, Abdnor, and Proxmire.

NATIONAL INSTITUTE OF BUILDING SCIENCES

STATEMENT OF THOMAS M. MOSES, CHAIRMAN OF THE BOARD

ACCOMPANIED BY GENE C. BREWER, PRESIDENT

OPENING REMARKS

Senator GARN. The subcommittee will come to order.

We are a little bit early, but I know of no rule that prevents us from starting when people are ready to go.

Our first agency this morning is the National Institute of Building Sciences. Although Congress provided this agency its final appropriation in fiscal year 1984, this hearing is part of our continuing oversight over the management and operations of the Institute.

WELCOME

Mr. Moses, we are happy to welcome you to the hearing this morning. We have your prepared statement, which we will include as part of the record, and we would like you to summarize it as you see fit.

We are also happy to have Gene Brewer with us again this morning.

Mr. Moses, please go ahead.

Mr. MOSES. Thank you, Mr. Chairman.

MR. MOSES' STATEMENT

I am, indeed, happy to appear once again before the subcommittee to report on the stewardship of the National Institute of Building Sciences and the funds that are entrusted to it.

As you indicated, my name is Tom Moses, and I am Chairman of the Board of Directors of NIBS. Mr. Brewer is here to assist me with questions that we may have to deal with later.

TRUST FUND PAYMENT

Last year, we reported to you that we qualified for the full amount of funds that were generated by the trust fund at the Treasury Department to be dispensed during fiscal year 1985. This year, I am again pleased, Mr. Chairman, to report that our efforts during 1985 have again qualified us for the maximum of $500,000 for distribution quarterly through fiscal year 1986.

PRIVATE SECTOR SUPPORT

The private sector continues to support the Institute with cash contributions and, of equal and perhaps greater importance, with thousands of man-hours of volunteer expertise. This. along with similar expertise from government, provides a reservoir of knowledge that is vital to NIBS' credibility and performance. We are grateful indeed for this kind of support.

BALANCED FUNDING

As I also mentioned last year, the concept of a balanced funding partnership has been well accepted in both the public and private sectors of the building community. It has enabled the Institute to examine in depth a number of significant issues such as toxic smoke in building fires, such as asbestos abatement in buildings, and many others.

NEW INITIATIVES

The Institute and its membership have undertaken some new initiatives, including improving the quality of construction, monitoring the transfer by the Housing and Urban Development Department of certain aspects of its minimum property standards to the private sector; and also studying some unstable soil conditions which seem to plague both public and private construction in various parts of the country.

In a word, though, Mr. Chairman, I think we can say that we are now able to look at current and emerging problems that are with us, rather than having to deal with them after the fact. We can act, rather than react as we have been forced to do in previous years.

FINANCIAL STATEMENTS

As you can see from our financial statements, the three principal sources of NIBS' income in 1985, in addition to the trust fund revenue, were from contract services, private contributions, and member donations, all of which total to revenues of $1.66 million. The total expense for that same time was $1.28 million. We have provided you with a copy of our operating budget for 1986 with our prepared testimony.

[The information follows:]

FISCAL YEAR 1985

NATIONAL INSTITUTE OF BUILDING SCIENCES (NIBS) FINANCIAL REPORT

September 30, 1985

The financial status of the Institute at the end of Fiscal Year 1985 was substantially improved over that at the end of Fiscal Year 1984. This is largely due to the existence of the matching funds concept which provided $500,000 from interest earned by a $5 million trust fund at the U.S. Treasury to match private sector donations to the Institute. In sum, the fund balance for the operation of the Institute increased from about $154,300 at the end of FY 84 to $536,400 at the end of FY 85, a total increase of $382,100. These are audited figures.

It should be noted that contract work undertaken by NIBS in any given year is relatively small and has been decreasing. In FY 85 contract income was $614,600 spread over eleven projects. This is down from $792,900 in FY 84, a decrease of $178,300 or 22.5% and a decrease of some 53 percent from the $1,316,700 contracted for in FY 83. The use of contracts provides a means for the Institute to perform useful services for federal agencies and income from them provides resources to supplement pro bono work that is undertaken without contracts on behalf of all in the building community. Additionally, those contracts and the pro bono issues provide the opportunity to gather members of the Institute's Consultative Council and others in the building community in forums, task forces, and committees to discuss issues and seek solutions to benefit both the public and private sectors. Without the contracts, there would be less opportunity to make use of the consensus process and to be of service to federal agencies.

The following material highlights features of the balance sheet and statement of income for the NIBS FY 1985 operations.

BALANCE SHEET

The balance sheet dated September 30, 1985 reflects an increase in cash assets during the year of $142,400. This is due largely to first year receipts of the payments of interest earned by the trust fund held for the National Institute of Building Sciences (NIBS) at the U.S. Treasury. For the year, the four interest payments received from that source totalled $500,000 matching total private sector contributions to the Institute slightly in excess of that amount during FY 84.

Total current assets at year end were $706,900. This is an increase of $208,600 since September 1984. Total assets increased $206,700 from $581,700 to $788,400.

Total current liabilities at the end of September 1985 were $252,065. This is $175,300 less than on September 30, 1984. It should be noted that all types of current liabilities decreased over the year and that the principal recorded liability is really a contract advance to the BSSC account of $175,200.

The total fund balance at the end of September was $536,400. This reflects an increase of $382,100 over the year. Note that $100,000 had been restricted by the Board of Directors as an operating reserve. Current plans are currently to increase that operations reserve by another $100,000.

STATEMENT OF INCOME & EXPENSES

The enclosed statement for the Institute operations for the 12 months ending September 30, 1985 shows year end actual income and expenses. In summary the four principal sources of income were the trust fund $500,000, contract services $614,600, private contributions $372,600, and member donations and fees which totalled about $108,400. About $65,800 in miscellaneous income was generated for a total of $1,661,400 million, about $36,000 less than in FY 84.

Expenses totalled about $1,279 million. Three categories of expenses are recorded. Contracts and grants expenses were $713,800, those for NIBS programs, including pro bono work, totalled $195,778 and general and administrative expenses were $369,700. Thus income exceeded expenses by $382,100 which is the amount of increase in the fund balance. This highlights the value of the matching funds concept for without the balanced funding, wherein the private sector funding triggered release of the trust fund interest payments, the net for the year's operations would have shown a deficit of nearly $117,900. It is clear that the partnership concept is valid and is working as it was intended.

ACTIVITIES

During the fourth quarter of the 1985 Fiscal Year NIBS continued its program of advice and assistance to both the public and private sectors of the nation.

- The Building Seismic Safety Council continued its work for the Federal Emergency Management Agency to prepare improved seismic safety provisions to be used by the voluntary standards and model code organizations, the building community and the public. Provisions have been developed, and trial designs have been prepared to test the provisions, the provisions have been modified as appropriate, the refined provisions are being studied for acceptance and their impact on the regulatory process is being assessed. Additionally, provisions related to utility services to buildings are being developed.

- The Building Thermal Envelope Coordinating Council has established research coordinating committees related to roofing, moisture control, fenestration, heat transfer, infiltration and ventilation, etc. Workshops and seminars are being conducted and areas of research emphasis are being determined. Advice resulting from the efforts is being provided to DOE and the private sector.

- The Building Energy Committee has met with state energy officials and those of a major public utility to review and critique their programs.

- Work on evaluating existing building product approval processes and suggesting likely areas of improvement has continued. This work is jointly funded by HUD, DOC, VA, DOD and FTC as well as the private sector.

- On-going efforts on behalf of EPA on the subject of indoor air quality to identify and summarize primary and current national and international standards, regulations, and other technical criteria related to indoor air quality, continued this quarter toward scheduled completion in the first quarter of FY 1986.

- A document is under preparation to serve as a model guide specification for asbestos hazard abatement. Findings by numerous building organizations and the Institute have shown that there is a great need for such a guide document among federal agencies, especially EPA, GSA and state and local governments, designers, contractors, and building owners.

- For the VA, model manuals on start-up of new buildings and on operations and maintenance of equipment and facilities are in preparation.
- A feasibility study of automated facilities engineering information systems is being carried out for the Navy Facilities Engineering Command. If found feasible, the U.S. Army Corp of Engineers will look into using such a system as well which could provide a basis for establishing an information collection and dissemination service of great value to both the public and private sectors.
- Quality in construction has become a matter of attention and the Institute has been involved in seeking ways to improve it. A conference with leaders of the building industry as speakers was held to convey the need for recognition of roles and responsibilities for quality in construction process. NIBS plans to pursue this issue.
- Quarterly forums, conducted by the Institute, bring together congressional committee staff, representatives of federal agencies and regulatory bodies with represenatives of the private sector. The opportunity for face to face exchange in these sessions facilitates development of workable solutions to the issues.

NATIONAL INSTITUTE OF BUILDING SCIENCES

BALANCE SHEET

September 30, 1985 and 1984

ASSETS	1985	1984
Current assets:		
Cash and cash equivalents	$397,747	$255,311
Accounts receivable, principally from U.S. Government agencies	296,640	241,907
Costs and estimated earnings on uncompleted contracts in excess of billings	11,770	-
Other, principally prepaid expenses	746	1,083
Total current assets	706,903	498,301
Property and equipment, at cost:		
Furniture and equipment	87,928	87,820
Leasehold improvements	42,470	36,779
	130,398	124,599
Less accumulated depreciation and amortization	71,651	62,893
Net property and equipment	58,747	61,706
Deposits	22,796	21,690
	$788,446	$581,697

LIABILITIES AND INSTITUTE EQUITY		
Current liabilities:		
Notes payable	$ -	$100,000
Accounts payable	49,548	84,597
Billings and advances on uncompleted contracts in excess of related costs	175,180	210,004
Accrued liabilities	27,337	32,813
Total current liabilities	252,065	427,414
Institute equity:		
Designated by Board of Directors for operating reserve	100,000	-
Undesignated	436,381	154,283
Total Institute equity	536,381	154,283
	$788,446	$581,697

NATIONAL INSTITUTE OF BUILDING SCIENCES

STATEMENT OF REVENUES, EXPENSES AND INSTITUTE EQUITY

Years ended September 30, 1985 and 1984

	1985	1984
Revenues:		
Congressional appropriation*	$ 500,000	$ 250,000
Contracts and grants	614,587	792,892
Donations	372,657	390,259
Member dues	108,360	144,506
Other	65,756	47,715
Total revenues	1,661,360	1,625,372
Expenses:		
Contracts and grants:		
Personnel	246,327	204,227
Subcontractors	151,050	296,333
Overhead allocated to contracts and grants	194,735	190,845
Other	121,716	196,431
Total contract and grant expenses	713,828	887,836
Institute programs and related activities:		
Personnel	60,684	61,643
Overhead allocated to programs	66,774	76,284
Other	68,320	52,082
Total program expenses	195,778	190,009
General and administrative expenses (net of amounts allocated to contracts, grants and programs)	369,656	402,065
Total expenses	1,279,262	1,479,910
Excess of revenues over expenses	382,098	145,462
Institute equity at beginning of year	154,283	8,821
Institute equity at end of year	$ 536,381	$ 154,283

* Annual interest from a trust fund established for the Institute at the U.S.Treasury under a matching funds program between the public and private sectors.

National Institute of
BUILDING SCIENCES

1015 Fifteenth Street, N.W.
Suite 700
Washington, D.C. 20005
(202) 347-5710

TO: Senate Appropriations Subcommittee

DATE: February 20, 1986

SUBJECT: FY 1986 Budget

In keeping with the need to advise the committee of current and planned operations of the National Institute of Building Sciences a budget for the Institute's operations in Fiscal Year 1986 is provided herewith.

On the department list which preceeds the budget presentation, 41 entries are provided. These entries can be grouped into three categories, i.e. overhead, contract, and non-contract. The expenses of administering and managing the Institute are largely direct costs to the first five accounts. These expenses are indirect charges to all accounts and are allocated to all.

The costs of fulfilling contractual commitments are both direct and indirect and the budgets so reflect.

The non-contract work is reflected in the remaining departments which are similar to contract work in that both include direct and indirect expenses. These accounts reflect issues and activities which the Institute believes needs to be studied or carried on for the overall good and on which it plans to expend its own resources.

OVERHEAD DEPARTMENTS	CONTRACT DEPARTMENTS			NON-CONTRACT DEPARTMENTS		
01	30	74	84	12	37	72
02	60	77	85	13	40	73
03	61	80	8X	20	53	75
04	62	81	90	27	54	76
05	63	82	91	2X	56	78
0X*	71	83	95	36	64	

* X Departments are summary entries in the computer.

Total income is anticipated to be just over two million dollars. Expenses are initially anticipated to be $1.6 million. Quarterly and half year budget adjustments are expected to increase non-contract activities in the range of 10%.

National Institute of
BUILDING SCIENCES

1015 Fifteenth Street, N.W.
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(202) 347-5710

November 15, 1985

TO: Budget and Finance Committee

FROM: Brian R. Landergan

SUBJECT: FY 1986 Budget

Attached is the proposed budget for Fiscal Year 1986 operations of the Institute.

The following conditions and assumptions were made in preparing it.

a) Income to the Institute from other than federal government sources during FY 1985 will be sufficient to permit release during fiscal year 1986 of the full $500,000 interest earned by the trust fund held for NIBS at the U.S. Treasury.

b) Corporate contributions, both restricted and nonrestricted, will be $330,000 during the coming fiscal year.

c) The level of contract or grant work by NIBS will approach $532,000 and the Building Seismic Safety Council's contract work for the Federal Emergency Management Agency will be $480,000.

d) Membership contributions during FY 1985 were $108,000 plus. With planned increased emphasis on this in 1986, it is anticipated that membership contributions will be $117,500.

e) NIBS staffing will be sixteen full time employees and four part time professional consultants. Other part time consultants may be engaged throughout the year for specific tasks as the need develops.

f) It is anticipated that an average of 6 percent merit increases may be made in employee's salary upon anniversary dates.

g) Group health insurance in fiscal year 1985 totaled $39,000. For FY 1986 it is shown as budgetted at $55,300 based upon an increase in the basic rate imposed by Travelers and an added person. A comparative study has been conducted of three plans of other health insurance companies and if arrangements can be made, a new carrier may be engaged. That action is expected to reduce the costs, perhaps by as much as $15,000.

h) Consultant services are expected to be needed to accomplish certain technical tasks associated with grant work. The current total estimate is about $231,000. Two thirds of that total or $144,000 will be used by the BSSC operation where special seismic engineering services are required.

BUDGET ADJUSTMENTS

Quarterly budget reviews will be made to compare actual vs. budgetted income and expenses. Large variances will trigger review of the activity to determine the cause and correction necessary. Major adjustments required will be submitted for review and approval. New initiatives will be considered and budgetted appropriately.

OVERHEAD ALLOCATION

Overhead costs have been spread over all active departments including Departments 01, 02, 03, 04 and 05, the administrative accounts which generate it. The total of their expenses is anticipated to be $612,527. Allocation is based upon a ratio of department salaries to total salaries. Examples: total salaries equal $536,600. Account 20 salaries equal $57,200. The ratio of $57,200 divided by $536,600 = 0.10659. That number times $612,527 results in an overhead charge to account 20 of $65,300.

DEPARTMENT LIST

DEPARTMENT #	DEPARTMENT NAME
01	Administration
02	Program Planning
03	Congressional Liaison
04	Program Development
05	Information Services
0X	NIBS Core
12	Printing/Publications
13	BSSC Publications
20	Consulative Council
27	Annual Meeting
2X	C.C. Aggregate
30	Common Code Format
36	C, S & R Division Forums
37	Roles/Responsibilities/Liabilities
40	Wood Dest. Organisms
53	Int. Conference
54	Performance Criteria Con.
56	Asbestos Task Force
60	Building Product Approval
61	Indoor Air Quality 1
62	Facility Start-Up
63	Housing & Building Research Agenda
64	Building Energy Committee
71	BTECC
72	BTECC Annual Meeting
73	Indoor Air Quality Sem/Wkshops
74	NAVFAC (AFEIS)
75	Info Packaging & Transfer by Computer
76	BSSC Annual Meeting
77	Asbestos Risk Assessment
78	Toxicity Update
80	BSSC IIIA Task A
81	BSSC IIIA Task B
82	BSSC IIIA Task C
83	BSSC IIIA Task D
84	BSSC Task E
85	Task F Ph III
8X	BSSC Phase III
90	BSSC Joint Venture
91	BSSC Lifelines
95	BSSC Phase IV

National Institute of Building Sciences

FY 1986 BUDGET

	TOTAL	UNALLOCATED	01	02	03	04	05
GRANT INCOME	$1,011,411.60	($.00)	$0.00	$0.00	$0.00	$0.00	$0.00
MEMBERSHIP	$117,475.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
UNRES.DONATION	$300,000.00	$0.00	$300,000.00	$0.00	$0.00	$0.00	$0.00
RE. DONATION	$30,000.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
ANNUAL MEETING	$18,000.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
PUBLICATIONS	$12,500.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
SEM/WRKSHP	$15,350.00	$0.00	[illegible]	$0.00	$0.00	$0.00	$0.00
INTEREST	$15,000.00	$0.00	$15,000.00	$0.00	$0.00	$0.00	$0.00
MISC.	$500.00	$0.00	$500.00	$0.00	$0.00	$0.00	$0.00
APPROP.	$500,000.00	$0.00	$500,000.00	$0.00	$0.00	$0.00	$0.00
TOTAL	$2,020,236.60	($.00)	$815,500.00	$0.00	$0.00	$0.00	$0.00

	TOTAL	UNALLOCATED	01	02	03	04	05
PROFESSIONAL	$404,314.39	$0.00	$129,148.69	$14,509.10	$4,326.00	$0.00	$42,856.80
CLERICAL	$132,320.50	$0.00	$57,696.26	$1,530.00	$1,530.00	$0.00	$15,000.00
PT CLERICAL	$15,000.00	$0.00	$15,000.00	$0.00	$0.00	$0.00	$0.00
WORKMANS COMP	$1,276.41	$0.00	$1,276.41	$0.00	$0.00	$0.00	$0.00
FICA	$30,756.37	$0.00	$30,756.37	$0.00	$0.00	$0.00	$0.00
UNEMPLOYMENT	$7,560.00	$0.00	$7,560.00	$0.00	$0.00	$0.00	$0.00
PENSION	$61,102.63	$0.00	$61,102.63	$0.00	$0.00	$0.00	$0.00
DISABILITY	$3,396.17	$0.00	$3,396.17	$0.00	$0.00	$0.00	$0.00
PARKING	$6,000.00	$0.00	$6,000.00	$0.00	$0.00	$0.00	$0.00
GROUP HEALTH	$55,263.09	($.00)	$55,263.09	$0.00	$0.00	$0.00	$0.00
FRINGE DISTIBUTE	$0.00	$.00	($107,781.66)	$4,942.17	$1,804.42	$0.00	$17,827.56
CONSULTANTS	$231,265.00	$0.00	$36,000.00	$0.00	$0.00	$0.00	$0.00
BOARD FEES	$13,600.00	$0.00	$13,600.00	$0.00	$0.00	$0.00	$0.00
BOARD TRAVEL	$38,500.00	$0.00	$21,000.00	$0.00	$0.00	$0.00	$0.00
STAFF TRAVEL	$45,369.50	$0.00	$8,500.00	$850.00	$2,500.00	$0.00	$50.00
CONSUL. TRAV.	$2,025.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
T.F.TRAVEL	$74,330.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
TELEPHONE	$26,186.00	$0.00	$9,117.41	$782.65	$235.75	$0.00	$2,823.22
POSTAGE	$31,596.00	$0.00	$3,700.00	$600.00	$200.00	$0.00	$2,500,00
MEETING EXPENSE	$30,680.00	$0.00	$6,000.00	$500.00	$60.00	$0.00	$100.00
PRINT/REPROD	$76,960.00	$0.00	$4,200.00	$550.00	$100.00	$0.00	$15,000.00
SUPPLIES	$18,700.00	$0.00	$6,510.95	$558.91	$204.06	$0.00	$2,016.12
PUBLICATIONS	$1,400.00	$0.00	$1,300.00	$100.00	$0.00	$0.00	$0.00
RENT EQUIP.	$2,100.00	$0.00	$2,100.00	$0.00	$0.00	$0.00	$0.00
MESSENGER	$2,950.00	$0.00	$1,500.00	$280.00	$0.00	$0.00	$100.00
REGISTRATION FEE	$425.00	$0.00	$425.00	$0.00	$0.00	$0.00	$0.00
LEGAL	$14,850.00	$0.00	$14,850.00	$0.00	$0.00	$0.00	$0.00
ACCOUNTING	$10,000.00	$0.00	$10,000.00	$0.00	$0.00	$0.00	$0.00
RENT	$103,306.08	$0.00	$35,969.00	$3,087.64	$1,127.32	$0.00	$11,137.85
SUBCONTRACTOR	$150,000.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
DEPRICIATION	$14,328.00	$0.00	$14,328.00	$0.00	$0.00	$0.00	$0.00
DUES/MBRSHIP	$550.00	$0.00	$550.00	$0.00	$0.00	$0.00	$0.0
INSURANCE	$8,600.00	$0.00	$8,600.00	$0.00	$0.00	$0.00	$0.0
ENTERTAIN//GIFT	$275.00	$0.00	$275.00	$0.00	$0.00	$0.00	$0.0
INTEREST	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.0
MISC.	$2,500.00	$0.00	$2,500.00	$0.00	$0.00	$0.00	$0.0
CONTRIBUTIONS	$150.00	$0.00	$150.00	$0.00	$0.00	$0.00	$0.0
O.H. ALLOCATED	$0.00	($0.01)	($248,053.46)	($10,045.68)	($5,476.24)	$0.00	($43,598.2
TOTAL	$1,617,637.14	($0.01)	$212,539.86	$18,244.79	$6,661.32	$0.00	$65,313.2
actual MARGIN BEFORE OVERHEAD	$402,599.46	$0.01	$354,906.68	($28,290.48)	($12,137.56)	$0.00	($109,411.5
SURPLUS/DEFICIT	$402,599.46	$0.01	$602,960.14	($18,244.79)	($6,661.32)	$0.00	($65,313.2

	12	20	27	30	36	40	53
GRANT INCOME	$0.00	$0.00	$0.00	$1,161.00	$0.00	$0.00	$0.00
MEMBERSHIP	$0.00	$105,000.00	$0.00	$0.00	$0.00	$1,700.00	$0.00
UNRES.DONATION	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
RE. DONATION	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
ANNUAL MEETING	$0.00	$0.00	$12,000.00	$0.00	$0.00	$0.00	$0.00
PUBLICATIONS	$11,000.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
SEM/WRKSHP	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
INTEREST	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
MISC.	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
APPROP.	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
TOTAL	$11,000.00	$105,000.00	$12,000.00	$1,161.00	$0.00	$1,700.00	$0.00

	12	20	27	30	36	40	53
PROFESSIONAL	$0.00	$41,225.52	$4,312.20	$872.55	$1,384.32	$997.20	$0.00
CLERICAL	$0.00	$15,940.55	$643.88	$81.60	$408.00	$81.60	$0.00
PT CLERICAL	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
WORKMANS COMP	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
FICA	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
UNEMPLOYMENT	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
PENSION	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
DISABILITY	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
PARKING	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
GROUP HEALTH	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
FRINGE DISTIBUTE	$0.00	$17,614.73	$1,527.13	$294.00	$552.27	$332.41	$0.00
CONSULTANTS	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
BOARD FEES	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
BOARD TRAVEL	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
STAFF TRAVEL	$0.00	$1,000.00	$4,000.00	$0.00	$0.00	$0.00	$0.00
CONSUL. TRAV.	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
T.F.TRAVEL	$0.00	$3,200.00	$3,000.00	$0.00	$2,000.00	$0.00	$0.00
TELEPHONE	$0.00	$2,789.51	$241.84	$46.56	$87.46	$52.64	$0.00
POSTAGE	$1,100.00	$3,200.00	$350.00	$150.00	$500.00	$50.00	$0.00
MEETING EXPENSE	$0.00	$300.00	$6,000.00	$100.00	$420.00	$100.00	$0.00
PRINT/REPROD	$3,000.00	$2,700.00	$2,000.00	$200.00	$0.00	$100.00	$0.00
SUPPLIES	$0.00	$1,992.05	$172.70	$33.25	$62.46	$37.59	$0.00
PUBLICATIONS	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
RENT EQUIP.	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
MESSENGER	$0.00	$150.00	$50.00	$0.00	$0.00	$0.00	$0.00
REGISTRATION FEE	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
LEGAL	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
ACCOUNTING	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
RENT	$0.00	$11,004.88	$954.08	$183.68	$345.03	$207.68	$0.00
SUBCONTRACTOR	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
DEPRICIATION	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
DUES/MBRSHIP	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
INSURANCE	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
ENTERTAIN//GIFT	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
INTEREST	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
MISC.	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
CONTRIBUTIONS	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
O.H. ALLOCATED	$0.00	$65,027.55	$5,637.64	$1,085.36	$2,038.80	$1,227.16	$0.00
TOTAL	$4,100.00	$166,144.79	$28,889.47	$3,047.01	$7,798.34	$3,186.28	$0.00
MARGIN BEFORE OVERHEAD	$6,900.00	$3,882.76	($11,251.83)	($800.64)	($5,759.54)	($259.12)	$0.00
SURPLUS/(DEFICIT	$6,900.00	($61,144.79)	($16,889.47)	($1,886.01)	($7,798.34)	($1,486.28)	$0.00

	54	56	60	61	62	63	64
GRANT INCOME	$0.00	$0.00	$33,413.20	$25,628.39	$68,437.96	$37,009.35	$0.00
MEMBERSHIP	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
UNRES.DONATION	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
RE. DONATION	$0.00	$20,000.00	$10,000.00	$0.00	$0.00	$0.00	$0.00
ANNUAL MEETING	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
PUBLICATIONS	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
SEM/WRKSHP	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
INTEREST	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
MISC.	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
APPROP.	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
TOTAL	$0.00	$20,000.00	$43,413.20	$25,628.39	$68,437.96	$37,009.35	$0.00

	54	56	60	61	62	63	64
PROFESSIONAL	$2,768.00	$1,246.50	$4,836.42	$8,831.67	$17,889.56	$4,845.12	$0.00
CLERICAL	$845.00	$326.40	$0.00	$387.60	$2,550.00	$3,100.80	$0.00
PT CLERICAL	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
WORKMANS COMP	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
FICA	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
UNEMPLOYMENT	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
PENSION	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
DISABILITY	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
PARKING	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
GROUP HEALTH	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
FRINGE DISTIBUTE	$1,113.28	$434.66	$1,490.26	$2,840.76	$6,298.09	$2,448.40	$0.00
CONSULTANTS	$0.00	$2,000.00	$0.00	$0.00	$3,200.00	$0.00	$0.00
BOARD FEES	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
BOARD TRAVEL	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
STAFF TRAVEL	$0.00	$700.00	$250.00	$0.00	$1,500.00	$500.00	$0.00
CONSUL. TRAV.	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
T.F.TRAVEL	$1,000.00	$1,105.00	$500.00	$0.00	$5,000.00	$1,000.00	$0.00
TELEPHONE	$176.30	$76.75	$236.00	$449.87	$997.38	$387.73	$0.00
POSTAGE	$500.00	$130.00	$300.00	$150.00	$1,000.00	$4,000.00	$500.00
MEETING EXPENSE	$500.00	$500.00	$240.00	$75.00	$400.00	$600.00	$500.00
PRINT/REPROD	$500.00	$1,000.00	$2,000.00	$500.00	$2,500.00	$5,000.00	$1,200.00
SUPPLIES	$125.90	$54.81	$168.53	$321.26	$712.25	$276.89	$0.00
PUBLICATIONS	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
RENT EQUIP.	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
MESSENGER	$0.00	$80.00	$50.00	$20.00	$50.00	$50.00	$0.00
REGISTRATION FEE	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
LEGAL	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
ACCOUNTING	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
RENT	$695.53	$302.79	$931.05	$1,774.78	$3,934.76	$1,529.65	$0.00
SUBCONTRACTOR	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
DEPRICIATION	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
DUES/MBRSHIP	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
INSURANCE	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
ENTERTAIN//GIFT	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
INTEREST	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
MISC.	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
CONTRIBUTIONS	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
O.H. ALLOCATED	$4,109.86	$1,789.21	$5,501.52	$10,487.10	$23,250.41	$9,038.64	$0.00
TOTAL	$12,333.87	$9,846.12	$16,503.78	$25,838.04	$69,282.46	$32,777.23	$2,200.00
MARGIN BEFORE OVERHEAD	($8,224.02)	$11,943.08	$32,410.94	$10,277.45	$22,405.91	$13,270.77	($2,200.00)
SURPLUS/(DEFICIT	($12,333.87)	$10,153.88	$26,909.42	($209.65)	($844.50)	$4,232.12	($2,200.00)

	71	72	73	74	75	77	78
GRANT INCOME	$0.00	$0.00	$109,752.74	$256,692.45	$0.00	$0.00	$0.00
MEMBERSHIP	$7,500.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
UNRES.DONATION	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
RE. DONATION	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
ANNUAL MEETING	$0.00	$3,400.00	$0.00	$0.00	$0.00	$0.00	$0.00
PUBLICATIONS	$1,500.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
SEM/WRKSHP	$6,500.00	$0.00	$8,850.00	$0.00	$0.00	$0.00	$0.00
INTEREST	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
MISC.	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
APPROP.	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
TOTAL	$15,500.00	$3,400.00	$118,602.74	$256,692.45	$0.00	$0.00	$0.00

	71	72	73	74	75	77	78
PROFESSIONAL	$4,088.52	$0.00	$30,830.94	$24,306.54	$1,081.50	$6,489.00	$1,292.90
CLERICAL	$8,083.43	$0.00	$2,040.00	$1,632.00	$510.00	$816.00	$122.40
PT CLERICAL	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
WORKMANS COMP	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
FICA	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
UNEMPLOYMENT	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
PENSION	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
DISABILITY	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
PARKING	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
GROUP HEALTH	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
FRINGE DISTIBUTE	$3,750.57	$0.00	$10,123.61	$7,992.51	$490.39	$2,250.91	$436.07
CONSULTANTS	$0.00	$0.00	$15,500.00	$20,000.00	$3,000.00	$7,500.00	$0.00
BOARD FEES	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
BOARD TRAVEL	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
STAFF TRAVEL	$300.00	$0.00	$7,000.00	$1,500.00	$0.00	$500.00	$500.00
CONSUL. TRAV.	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
T.F.TRAVEL	$800.00	$0.00	$0.00	$0.00	$0.00	$1,000.00	$750.00
TELEPHONE	$593.95	$0.00	$1,603.99	$1,265.71	$77.66	$356.46	$69.06
POSTAGE	$3,200.00	$250.00	$500.00	$1,000.00	$150.00	$2,000.00	$2,000.00
MEETING EXPENSE	$4,000.00	$2,900.00	$300.00	$150.00	$0.00	$150.00	$60.00
PRINT/REPROD	$7,000.00	$650.00	$6,000.00	$500.00	$500.00	$5,000.00	$1,000.00
SUPPLIES	$424.15	$0.00	$1,145.45	$903.37	$55.46	$254.56	$49.32
PUBLICATIONS	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
RENT EQUIP.	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
MESSENGER	$250.00	$0.00	$150.00	$50.00	$0.00	$50.00	$0.00
REGISTRATION FEE	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
LEGAL	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
ACCOUNTING	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
RENT	$2,343.19	$0.00	$6,327.39	$4,993.86	$306.38	$1,406.27	$272.44
SUBCONTRACTOR	$0.00	$0.00	$0.00	$150,000.00	$0.00	$0.00	$0.00
DEPRICIATION	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
DUES/MBRSHIP	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
INSURANCE	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
ENTERTAIN//GIFT	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
INTEREST	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
MISC.	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
CONTRIBUTIONS	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
O.H. ALLOCATED	$13,845.94	$0.00	$37,391.35	$29,505.61	$1,310.36	$8,309.58	$1,609.32
TOTAL	$48,679.65	$3,800.00	$118,918.23	$243,799.60	$7,931.75	$36,082.77	$8,161.90
MARGIN BEFORE OVERHEAD	($19,333.82)	($400.00)	$37,075.86	$42,398.46	($6,171.39)	($27,773.19)	($6,552.08)
SURPLUS/(DEFICIT	($33,179.65)	($400.00)	($315.49)	$12,892.85	($7,931.75)	($36,082.77)	($8,161.90)

	80	90	95	BSSC AN.MTG	XXX	LIFELINES	
GRANT INCOME	$223,005.08	$20,375.99	$77,773.32	$0.00	$0.00	$158,162.13	$0.00
MEMBERSHIP	$0.00	$0.00	$0.00	$3,275.00	$0.00	$0.00	$0.00
UNRES.DONATION	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
RE. DONATION	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
ANNUAL MEETING	$0.00	$0.00	$0.00	$2,600.00	$0.00	$0.00	$0.00
PUBLICATIONS	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
SEM/WRKSHP	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
INTEREST	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
MISC.	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
APPROP.	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
TOTAL	$223,005.08	$20,375.99	$77,773.32	$5,875.00	$0.00	$158,162.13	$0.00

	80	90	95	BSSC AN.MTG	XXX	LIFELINES	
PROFESSIONAL	$20,636.00	$5,896.00	$16,532.00	$0.00	$1,047.84	$12,063.60	$0.00
CLERICAL	$5,275.00	$1,055.00	$4,000.00	$0.00	$1,164.98	$7,500.00	$0.00
PT CLERICAL	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
WORKMANS COMP	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
FICA	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
UNEMPLOYMENT	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
PENSION	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
DISABILITY	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
PARKING	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
GROUP HEALTH	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
FRINGE DISTIBUTE	$7,984.02	$2,141.83	$6,326.58	$0.00	$681.84	$6,028.18	$0.00
CONSULTANTS	$90,000.00	$1,500.00	$5,000.00	$0.00	$0.00	$47,565.00	$0.00
BOARD FEES	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
BOARD TRAVEL	$17,000.00	$0.00	$0.00	$500.00	$0.00	$0.00	$0.00
STAFF TRAVEL	$12,000.00	$0.00	$1,500.00	$382.00	$0.00	$1,837.50	$0.00
CONSUL. TRAV.	$0.00	$0.00	$0.00	$0.00	$0.00	$2,025.00	$0.00
T.F.TRAVEL	$15,000.00	$0.00	$7,500.00	$0.00	$0.00	$32,475.00	$0.00
TELEPHONE	$1,264.37	$339.19	$1,001.89	$0.00	$107.98	$954.64	$0.00
POSTAGE	$1,500.00	$240.00	$1,200.00	$150.00	$0.00	$428.00	$0.00
MEETING EXPENSE	$0.00	$0.00	$500.00	$1,500.00	$0.00	$4,725.00	$0.00
PRINT/REPROD	$5,000.00	$525.00	$5,000.00	$75.00	$0.00	$5,160.00	$0.00
SUPPLIES	$902.92	$242.22	$715.47	$0.00	$77.11	$681.73	$0.00
PUBLICATIONS	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
RENT EQUIP.	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
MESSENGER	$0.00	$0.00	$0.00	$0.00	$0.00	$120.00	$0.00
REGISTRATION FEE	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
LEGAL	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
ACCOUNTING	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.0
RENT	$4,988.05	$1,338.12	$3,952.56	$0.00	$425.98	$3,766.13	$0.0
SUBCONTRACTOR	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.0
DEPRICIATION	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.0
DUES/MBRSHIP	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.0
INSURANCE	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.0
ENTERTAIN//GIFT	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.0
INTEREST	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.0
MISC.	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.0
CONTRIBUTIONS	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.0
O.H. ALLOCATED	$29,474.28	$7,906.90	$23,355.56	$0.00	$2,517.13	$22,253.99	$0.0
TOTAL	$211,024.64	$21,184.25	$76,584.06	$2,607.00	$6,022.86	$147,583.77	$0.0
MARGIN BEFORE OVERHEAD	$41,454.71	$7,098.64	$24,544.82	$3,268.00	($3,505.73)	$32,832.35	$0.
SURPLUS/(DEFICIT	$11,980.43	($808.26)	$1,189.26	$3,268.00	($6,022.86)	$10,578.36	$0.

	TOTAL
GRANT INCOME	$1,011,411.60
MEMBERSHIP	$117,475.00
UNRES.DONATION	$300,000.00
RE. DONATION	$30,000.00
ANNUAL MEETING	$18,000.00
PUBLICATIONS	$12,500.00
SEM/WRKSHP	$15,350.00
INTEREST	$15,000.00
MISC.	$500.00
APPROP.	$500,000.00
TOTAL	$2,020,236.60

	TOTAL
PROFESSIONAL	$404,314.39
CLERICAL	$132,320.50
PT CLERICAL	$15,000.00
WORKMANS COMP	$1,276.41
FICA	$30,756.37
UNEMPLOYMENT	$7,560.00
PENSION	$61,102.63
DISABILITY	$3,396.17
PARKING	$6,000.00
GROUP HEALTH	$55,263.09
FRINGE DISTIBUTE	$.00
CONSULTANTS	$231,265.00
BOARD FEES	$13 600.00
BOARD TRAVEL	$38,500.00
STAFF TRAVEL	$45,369.50
CONSUL. TRAV.	$2,025.00
T.F. TRAVEL	$74,330.00
TELEPHONE	$26,186.00
POSTAGE	$31,598.00
MEETING EXPENSE	$30,680.00
PRINT/REPROD	$76,960.00
SUPPLIES	$18,700.00
PUBLICATIONS	$1,400.00
RENT EQUIP.	$2,100.00
MESSENGER	$2,950.00
REGISTRATION FEE	$425.00
LEGAL	$14,850.00
ACCOUNTING	$10,000.00
RENT	$103,306.08
SUBCONTRACTOR	$150,000.00
DEPRICIATION	$14,328.00
DUES/MBRSHIP	$550.00
INSURANCE	$8,600.00
ENTERTAIN//GIFT	$275.00
INTEREST	$0.00
MISC.	$2,500.00
CONTRIBUTIONS	$150.00
O.H. ALLOCATED	($0.01)
TOTAL	$1,617,637.13
MARGIN BEFORE OVERHEAD	$402,599.46
SURPLUS/(DEFICIT	$402,599.47

PUBLIC SERVICE OBJECTIVES

Mr. Chairman, I am pleased to report that the Institute has, in the last year, been able to turn with renewed vigor to pursuing its public service objectives, which are to improve the building regulatory environment and to encourage the introduction of new technology into the building process.

I would like to cite some brief examples, if I may.

QUALITY IN CONSTRUCTION

First, NIBS conducted two major conferences last year in Washington and Philadelphia on an important building topic—quality in construction. The conference served to point out that increasingly the lines of responsibility are becoming blurred among building designers, contractors, subcontractors, building owners, and operators. Decisions these days sometimes appear to be based, not just on economics, artistry, or human safety, but many times on legal concerns and the avoidance of liability.

We will continue to focus on those issues that are connected with those roles and responsibilities, and hope to direct our activities toward achieving quality in building construction.

BUILDING SEISMIC SAFETY COUNCIL

The Building Seismic Safety Council is an organization sponsored by NIBS, and operates under its auspices. It has developed a document of, we think, significant potential importance to the safety of American in earthquake areas.

Four months after the Mexico City tragedy, the Federal Emergency Management Agency announced, in a major press conference, publication of a "National Earthquake Hazards Reduction Program Recommended Provisions for the Development of Seismic Regulations for New Buildings." This landmark document was completed during fiscal year 1985 by the Building Seismic Safety Council.

BSSC has now begun work on a similar long-range project for FEMA, and that is to abate the potential seismic impact on water, sewer, power transmission, transportation, and communication lines, all of those things we know as lifelines.

BUILDING THERMAL ENVELOPE COORDINATING COUNCIL

The Building Thermal Envelope Coordinating Council is another organization sponsored by NIBS, and it operates under the auspices of the Institute as well. As you might well surmise, the building thermal envelope consists of the walls, the ceiling, the roof, with the windows, doors, and skylights, and all of the other apertures that go along with it.

The building thermal envelope, therefore, is significant, principally for energy conservation requirements, and ventilation to maintain a healthy indoor environment. Through integrated action of seven research coordinating committees, the Council is working toward its primary goal—completion by 1987 of a national program plan for building energy research.

Ironically, when we talk about tightness of buildings, we realize the building community's increasing success in tightening our buildings and note that such energy conservation has, on the other hand, created problems in another form, that of indoor air quality.

A NIBS project committee, during fiscal year 1985, identified and described standards, regulations, and other technical criteria directly related to indoor air quality. The fund of knowledge on indoor quality is being made accessible to the building community in a printed form and on microcomputer diskettes.

This year, the Institute will develop and conduct six indoor air quality workshops to present problem identification and solution technology to design professionals, building owners, and Federal agencies. Radon, environmental tobacco smoke, and asbestos in buildings are just some of the issues that they will be addressing.

ASBESTOS GUIDELINES

As you and members of the subcommittee know, Mr. Chairman, various health issues have been linked with industrial exposure to airborne asbestos. Last year, we mentioned the need for asbestos abatement guidelines. In response to requests from both the public and private sectors, the Institute has developed such guidelines.

NIBS has investigated appropriate means for abating asbestos hazards. Our publication, The Model Guide Specifications for Asbestos Abatement in Buildings, will be published soon, and it will set out procedures for dealing with asbestos problems.

TOXICITY

For several years, NIBS has been a leader in seeking a rational response to national concerns over the issue of toxic emissions from building materials and furnishings during building fires. This is a complicated issue, and there are many misconceptions that are formed very readily.

During fiscal year 1985, we twice addressed the issue before the State of New York authorities, pointing out to them that current tests for combustion toxicity are inadequate for regulatory purposes, and may even be counterproductive to addressing real world problems of life safety in building fires.

We have announced a series of national conferences, the first one scheduled for mid-1986, to review building materials for fire safety elements as ignitability, heat release, flame spread, and generation rate of smoke release, as well as the status of current toxicity test developments; to consider voluntary guidelines for application by manufacturers on toxicity and other fire characteristics of building materials and furnishings; and to create a national awareness campaign on fire safety.

MODEL MANUALS FOR FACILITY EQUIPMENT O&M

For the Veterans Administration, NIBS is developing a set of model hospital user manuals that will guide architects and engineers in producing operations and maintenance manuals for new and renovated VA facilities.

AUTOMATED FACILITIES ENGINEERING INFORMATION SYSTEM

We are also engaged in a feasibility study of an automated facilities engineering information system known as AFEIS, which we are carrying out for the Naval Facilities Engineering Command and the Army Corps of Engineers.

We think that this is perhaps one of the most exciting things that we have gotten into. It puts us on the leading edge of new technology. This project is expected to result in some significant improvement in the way the Department of Defense building criteria, such as guide specifications, design manuals, and reference documents, can be disseminated within the agencies and to design professionals.

WOOD PROTECTION COUNCIL

NIBS also is continuing to assist the Wood Protection Council, which was formed under the sponsorship of NIBS, with the economics and technology of protecting new and existing buildings from attack by wood-destroying organisms as its primary function.

FIRE AND LIFE SAFETY

We have continued a series of meetings with the leadership of the Fire Protection Association, the Council of American Building Officials, and its constituent organizations, to enhance the protection of the public in matters of fire and life safety.

A video presentation covering cooperation between building code and fire officials through increased professionalism, and defining the scope of building and fire prevention codes, and the relationship between building and fire prevention codes has been developed by NFPA. Other advances include joint participation in some 17 fire investigations which for the first time are bringing building officials and fire officials together to combine their expertise in this important task.

RESEARCH AGENDA

Two NIBS programs during 1985 focused on providing building community input to the Federal Government's housing and building research activities. The work was completed under contracts to the Department of Housing and Urban Development and the National Bureau of Standards, with the guidance of a broadly representative committee.

As you are aware, Mr. Chairman, the National Institute of Building Sciences relies in much of its work on the concept of consensus. Key issues of building science and technology are identified that are not adequately being addressed by other people.

FORUMS

Frequently, we convene forums of expert and interested people from many disciplines who have differing views on such issues. From each forum a course of action may emerge for the Institute to pursue. When appropriate, proceedings are published.

In fiscal year 1985, NIBS considered such issues as asbestos abatement, smoke toxicity, roles and responsibilities in construction, local building code enforcement, modular housing preemptive codes, and Federal agency use of voluntary standards and building codes.

REHABILITATION GUIDELINES

I think a significant project that I bring to your attention had its roots with this subcommittee some years ago when this committee conceived the idea of the development and publication of guidelines for rehabilitation of existing buildings as a means of economically upgrading and preserving the Nation's building stock.

This subcommittee directed the Department of Housing and Urban Development to contract with NIBS for this work. The Institute prepared the guidelines for HUD, and they subsequently became the basis for a model rehabilitation building code, published just last year by the Building Officials Code Administrators International, and a companion document is in the offing to be published by the Southern Building Code Congress, perhaps in the next year.

We again want to gratefully acknowledge this subcommittee's leadership on this project, and we are gratified that the work that we, along with HUD, have done achieved such a level of success.

I want to thank the subcommittee and the chairman for the privilege of testifying here today on behalf of the National Institute of Building Sciences.

WORKING PARTNERSHIP

The building community has responded to the opportunity provided by the subcommittee in its support of NIBS. As I indicated earlier, the private sector not only contributes funds to be matched from the Trust Fund, but also delivers more than a million dollars worth of volunteer services provided by Institute members and other participants. In my judgment, Mr. Chairman, this working partnership between the private sector and the Federal Government bodes well for the health and wellbeing of everyone who lives or works, shops or dines, studies or worships in buildings where we spend 90 percent of our time.

Mr. Chairman, we have attached to our prepared testimony some additional documents, including our audit of private contributions for fiscal year 1985 and our 1986 operating budget.

This concludes my prepared testimony, and we will certainly be honored to hear your comments or respond to any questions that you might have.

[The statement follows:]

STATEMENT OF THOMAS M. MOSES

Mr. Chairman, members of the Subcommittee, I welcome the opportunity to appear once again before this Subcommittee and report on the stewardship of the National Institute of Building Sciences (which I will call "NIBS") of the funds entrusted to it. My name is Thomas M. Moses, and I am chairman of the Board of Directors of NIBS.

Accompanying me today is Gene C. Brewer, president of the Institute.

I am a professional engineer, and director and manager of Walt Disney World's Reedy Creek Improvement District program in Lake Buena Vista, Florida. In addition, I am past president of the Southern Building Code Congress International and of the Council of American Building Officials.

Last year, we reported that we had qualified for the full amount of funds generated by the Trust Fund at the Treasury Department to be dispensed during fiscal 1985. This year, I am pleased to report that our efforts during 1985 again qualified for the maximum of $500,000 for distribution quarterly through fiscal 1986. The private sector continues to support the Institute with cash contributions and, of equal or perhaps greater importance, with thousands of man hours of volunteer expertise. This along with similar expertise from government provides a reservoir of knowledge that is vital to NIBS' credibility and performance. We are indeed grateful for that support.

As I mentioned last year, the concept of a balanced funding parternship has been well accepted in the public and private sectors of the building community. It has enabled the Institute to examine in depth such significant issues as toxic smoke in building fires and asbestos abatement in buildings. I will discuss these and other Institute programs later in my testimony.

The Institute and its membership have undertaken several new initiatives, including improving the quality of construction, monitoring the transfer by the Housing and Urban Development Department (HUD) of certain aspects of its Minimum Property Standards to the private sector; and studying unstable soils which plague both public and private construction in various parts of the country. In a word, Mr. Chairman, we are now able to look into current and emerging problems before a crisis, rather than reacting afterwards.

FINANCES

As I anticipated in my testimony before this body last year, NIBS' work on behalf of safer, better, and more cost effective buildings for the American people has benefited measurably from the matching funds program established by Congress in 1984. In fiscal 1985, the federal government matched, through a trust fund, each dollar up to $500,000 contributed during the year by the private sector.

This public-private partnership is in keeping with the spirit of the 1974 authorizing legislation (Public Law 93-383, Section 809), in that it enhances the credibility of our advice to "both the public and private sectors of the economy" and our standing as an "authoritative nationally recognized institution".

The Institute is working to broaden its membership and economic base and to expand its influence in building technology and science.

As noted in our financial statements, the three principal sources of NIBS income in 1985, in addition to the Trust Fund revenue, were contract services, almost $615,000; private contributions, $372,600; and member donations, $108,400. Total revenue was $1.66 million. Total expenses for 1985 were $1.28 million.

With this prepared testimony, we have included our operating budget for FY 1986. It is our policy to do mid-year budget reassessments. Some of the new initiatives to which I referred will be funded in that manner.

Mr. Chairman, I am pleased to report that the Institute has in the last year been able to turn with renewed vigor to pursuing its public service objectives, which are to improve the building regulatory environment and to encourage the introduction of new technology into the building process.

Let me cite some examples:

QUALITY IN CONSTRUCTION

NIBS conducted two major conferences last year in Washington and Philadelphia on an important building topic -- quality in construction. This is a subject to which we believe the American people will be demanding increased attention. NIBS expects to devote increasing resources to it.

Speakers at the conferences noted that, increasingly, the lines of responsibility are becoming blurred among building designers, contractors, subcontractors and building owners or operators. Significant construction decisions these days sometimes are based, not on economics, artistry, or human safety, but on legal concerns and avoidance of liability.

We believe that the NIBS' consensus approach is particularly applicable to the task of causing the entire building community to focus on the issues connected with roles and responsibilities and achieving quality in building construction.

BUILDING SEISMIC SAFETY COUNCIL (BSSC)

The BSSC, an organization sponsored by NIBS and operating under its auspices, has developed a document of significant potential importance to the safety of Americans in earthquakes.

On Jan. 21, four months after the Mexico City earthquake tragedy, the Federal Emergency Management Agency (FEMA) announced in a major press conference publication of NEHRP (National Earthquake Hazards Reduction Program) Recommended Provisions for the Development of Seismic Regulations for New Buildings. This landmark document was completed during FY 1985 by the BSSC.

The council gathered a number of authorities representing a broad cross section of expertise on building design for seismic safety. A number of design firms across the country were contracted to prepare dual design plans for specific buildings -- one set according to the proposed recommended provisions and another without them, to determine costs and benefits.

In addition, the proposed recommended provisions were subjected to rigorous balloting by the BSSC membership and revised to reflect comments received.

Sections of the country vary widely in their preparation for the various kinds of seismic hazards to which forecasts show they are likely to be subjected. Publication of the Recommended Provisions as a resource document should help to remedy that.

BSSC now has begun work on a similar long-range project for FEMA. That is to abate the potential seismic impact on water, sewer, power, transportation, and communication lines -- known as lifelines.

BUILDING THERMAL ENVELOPE COORDINATING COUNCIL (BTECC)

BTECC is another organization sponsored by NIBS and operating under Institute auspices. A building thermal envelope consists of a building's exterior walls, floors, and roofs and their windows, doors, vents, skylights and other apertures. Considerations of the building thermal envelope, therefore, are important, principally for energy conservation requirements and for ventilation to maintain a healthy indoor environment.

BTECC has been very active in FY 1985 in promoting understanding of elements of the building thermal envelope and their importance in energy conservation and in identifying research needs. BTECC and its committees hosted or co-hosted during FY 1985 productive workshops on moisture control in buildings, infiltration and ventilation, and insulation value of windows. Proceedings of these workshops are available.

Through integrated action of its seven Research Coordinating Committees, the Council is working toward its primary goal, completion by 1987 of a National Program Plan for building energy research.

INDOOR AIR QUALITY

Ironically, the building community's increasing success in tightening the building thermal envelope sometimes contributes to problems in another form -- that of indoor air quality. There has been continuing national concern over the quality of air inside buildings, including problems related to the minimal exchange of air within particularly tight buildings.

A NIBS project committee during FY 1985 identified and described standards, regulations, and other technical criteria directly related to indoor air quality. The committee thus created a data base of information obtained from model code organizations; standards writing bodies; professional societies and trade organizations; federal, state and local governments; governments of foreign countries; and existing data bases.

This fund of knowledge on indoor air quality is being made accessible to the building community in printed form and on microcomputer diskettes.

This year, the Institute will develop and conduct six indoor air quality workshops to present problem identification and solution technology to design professionals, building owners, and federal agencies. Radon, environmental tobacco smoke, and asbestos in buildings are the primary issues to be addressed.

ABATEMENT OF ASBESTOS IN BUILDINGS

As you and Members of the Subcommittee know, Mr. Chairman, various health issues have been linked with industrial exposure to airborne asbestos. The extensive presence of asbestos-containing materials in existing buildings has raised concern about potential exposure to asbestos in nonindustrial settings.

Last year, we mentioned a need for asbestos abatement guidelines. In response to requests from both the public and private sectors, the Institute has developed such guidelines.

While sprayed on insulation and trowelled on plaster containing asbestos can no longer be used, the Environmental Protection Administration estimates, based on surveys, that asbestos-containing materials can be found in about 31,000 schools and 733,000 other public and commercial buildings in this country.

I need to note, Mr. Chairman, that the mere presence of asbestos in a building does not necessarily endanger the health of the building's occupants. As long as non-firable asbestos-containing material in buildings remains in good condition and is not disturbed, exposure to asbestos' hazardous qualities is unlikely.

When building maintenance, repair, renovations, or other activities disturb asbestos-containing materials, or when they are somehow damaged, asbestos fibers may be released. At such times, through planned maintenance and repair programs or other forms of abatement, prudent building owners will take steps to correct the condition.

NIBS has investigated appropriate means for abating asbestos hazards. NIBS' publication, Model Guide Specifications for Asbestos Abatement in Buildings, to be published soon, will set out procedures for dealing with asbestos problems. The NIBS' Model Guide Specifications are designed primarily for use by qualified architects, engineers, industrial hygienists, building owners, and contractors to improve quality and consistency in asbestos abatement activities.

TOXICITY OF BUILDING MATERIALS IN COMBUSTION

For several years, NIBS has been a leader in seeking a rational response to national concern over the issue of toxic emissions from building materials and furnishings during building fires. This is a complicated issues about which misconceptions form readily.

During fiscal year 1985, NIBS twice addressed the issue before State of New York authorities who were considering regulations to require combustion toxicity testing of building materials. The Institute's comments were based on reports of two major forums that gathered data from a broad cross section of concerned people and organizations. The NIBS findings held that current tests for combustion toxicity are inadequate for regulatory purposes, and may even be counterproductive in addressing the real world problems of life safety in building fires.

NIBS has announced a series of national conferences, the first scheduled for mid-1986, to review such building materials fire safety elements as ignitability, heat release, flame spread, and generation rate of smoke release, as well as the status of current toxicity test developments; to consider voluntary guidelines for application by manufacturers on toxicity and other fire characteristics of building materials and furnishings; and to create a national awareness campaign on fire safety.

Because this is an issue under state and local purview, we have shared our views with state governors and mayors of major cities, and have invited them to take part or involve their staffs in these conferences.

VETERANS ADMINISTRATION (VA) HOSPITAL START-UP AND OPERATION

For the VA, NIBS is developing a set of model Hospital User Manuals that will guide architects and engineers in producing operations and maintenance manuals for new and renovated VA facilities.

Earlier, NIBS studies demonstrated that such manuals can save VA substantial costs in facility start-up and long term operation and maintenance.

Of a four-volume set of model manuals, the first two are now in field testing and the last two are being drafted. A key part of the current work is cost-effectiveness evaluation of the model manuals.

Because clear guidance on the operation and maintenance of facilities is often a weak link in the building process, it appears that the approach we are taking with the VA can be applied with modification to other types of facilities both for the government and for the private sector.

AFEIS

NIBS is also engaged in a feasibility study of an Automated Facilities Engineering Information System (AFEIS), which we are carrying out for the Naval Facilities Engineering Command and the Army Corps of Engineers.

This project is expected to result in tremendous improvements in the ways Department of Defense building criteria -- such as guide specifications, design manuals, and reference documents -- are disseminated within the agencies and to design professionals.

AFEIS is expected to collect more than 100,000 pages of criteria on a single disc for access by a typical micro computer. In our judgement, there is potential here for an information collection and dissemination service of immense value to the private as well as the public sector.

This activity responds to two important aspects of the Institute's authorizing legislation: to provide advice to Federal agencies and to disseminate technical information to the building community.

In this regard, Mr. Chairman, you may find it interesting that in checking our records recently, we learned that we have advised in varying form and degrees more than 15 federal agencies. I can provide a list of those agencies for the record should that be desired.

FORMATION OF WOOD PROTECTION COUNCIL (WPC)

NIBS continues to assist the WPC, which also was formed under the sponsorship of NIBS and operates under NIBS auspices.

The Council is concerned with the safety, economics, and technology of protecting new and existing buildings from attack by wood destroying organisms, educating those concerned with protection against such organisms, and promoting research and advances in the field.

Already, the Council has developed a sampling protocol for termiticide residues in areas occupied by people. The protocol is expected to be published this year.

PUBLIC PROTECTION AND FIRE SAFETY

NIBS has continued a series of meetings with the leadership of the National Fire Protection Association (NFPA) and the Council of American Building Officials (CABO) and its constituent organizations to enhance the protection of the public in matters of fire and life safety.

Among advances achieved in 1985 were these:

o A videotape presentation entitled "Fire Away" -- Building and Fire Department Cooperation, prepared by NFPA and widely distributed. This presentation covers cooperation between building code and fire officials through increased professionalism, the definition and scope of building and fire prevention codes, and the relationship between building and fire prevention codes.

o Seventeen joint fire investigations conducted since the discussions began in 1983, with an emphasis on combining technical strengths of both professions in collecting data on fire loss and developing corrective measures.

BUILDING TECHNOLOGY RESEARCH AGENDA

Two NIBS programs during 1985 focused on providing building community input to the federal government's housing and building research activities. The work was completed under contracts to the Department of Housing and Urban Development (HUD) and the National Bureau of Standards, with the guidance of a broadly representative committee.

On May 20, 1985, NIBS reported to HUD a summary of recommendations pertaining to its role in sponsoring and monitoring housing technology research. The primary program for HUD, the committee found, should be in collecting and disseminating information about the applications and use of technological advances in housing and land use. In addition, HUD should continue its effective program of demonstrating housing affordability, the committee said.

On May 31, 1985, NIBS presented to the National Bureau of Standards a summary of recommended research topics. The recommendations were drawn from a review of existing technical literature and a survey of the building community. They reflected current research needs that appeared to be within the purview of the NBS Centers for Building Technology and Fire Research.

The committee determined that "durability of materials" was the most frequently expressed concern of builders, designers and building owners. The committee's findings also urged further research in the areas of structural loading, moisture degradation, racking strength for panelized construction, fiber reinforced concrete panels and coatings, and fire safety retrofit.

FORUMS

The National Institute of Building Sciences relies for much of its work on the concept of consensus. Key issues of building science and technology are identified that are not adequately being addressed by other bodies. Frequently we convene forums of expert and interested people from many disciplines who have differing views on such issues. From each such forum a course of action may emerge for the Institute to pursue. When appropriate, proceedings are published.

In FY 1985, NIBS forums considered such issues as asbestos abatement, smoke toxicity, roles and responsibilities in construction, local building code enforcement, modular housing preemptive code, and Federal agency use of voluntary standards and building codes.

REHABILITATION GUIDELINES

This Subcommittee some years ago conceived the idea of the development and publication of guidelines for rehabilitation of existing buildings as a means of economically upgrading and preserving the nation's housing stock. The Subcommittee directed the Department of Housing and Urban Development to contract with NIBS for this work.

The Institute prepared these guidelines for HUD and they subsequently became the basis for a model rehabilitation building code, published last year by the Building Officials and Code Administrators International.

We gratefully acknowledge the Subcommittee's leadership on this project and are gratified that our work with HUD in this regard has achieved such a level of acceptance.

Mr. Chairman, the smaller things you do sometimes seem to attract an extra measure of appreciation and attention. This year, as part of our efforts to improve service to our members and expand our membership base, we published a 1986 Building Community Calendar of Events listing the major meetings of many of the key organizations that make up the U.S. building community. We have provided a copy for the members of the Subcommittee along with our prepared testimony. This has proved to be one of our most popular publications.

Also, we are developing a directory we call Whom to Call for What. A preliminary version of this directory of significant building community organizations has been published and is being distributed to our membership. We expect its distribution to attract additional entries.

Again, I thank the Subcommittee and the Chairman for the privilege of testifying before this body in behalf of the National Institute of Building Sciences.

The building community has responded to the opportunity provided by the Subcommittee in its support of NIBS. As I noted earlier, the private sector not only contributes funds to be matched from the Trust Fund, but also delivers more than a million dollars worth of volunteer services provided by Institute members and other participants.

In my judgement, this working partnership between the private sector and the federal government bodes well for the health and well being of everyone who lives or works, shops or dines, studies or worships -- in buildings, where we spend 90 percent of our time.

Mr. Chairman, we have attached to the copies of our prepared testimony some additional documents, including our audit of private contributions for fiscal year 1985 and 1986 Operating Budget.

This concludes my prepared testimony and I will be honored to hear your comments and respond to any questions.

TRUST FUND

Senator GARN. Thank you very much.

As you well know, Congress established the $5 million trust fund 2 years ago to provide financial stability for NIBS with a matching requirement. This was intended to stimulate fundraising efforts from non-Federal sources.

I am pleased that the Institute has been able to achieve that goal again in fiscal year 1985, which has released for the second time the $500,000 from the Government.

I would hope that some time in the future—as we have talked about many times—that the private fundraising efforts would eventually be much larger than the Federal share, and that was contemplated when we initially authorized this.

RAISING PRIVATE SECTOR CONTRIBUTIONS

When we look at the national performance in raising private contributions, though, it concerns me a little bit that they have dropped off despite the fact that in the last couple of years, we have come out of the very severe recession in building, and the general economic climate has certainly turned around.

What do you attribute that drop off to, and do you expect the trend to continue, or can you reverse it with a much better economic climate?

Mr. MOSES. I would ask Mr. Brewer if he would respond to that.

Mr. BREWER. Thank you, Mr. Moses.

The fundraising and membership issue is a tough one for any organization. I think we fell off a little in membership last year after the big push we put on to get organized. I found, in my membership work, we have to deal with attrition every year, and we expect to bring that back up this year.

With respect to the balance that you spoke of, Mr. Chairman, although there is no cash credit for the volunteer activity, NIBS couldn't function without all of those volunteers bringing advice to the table.

BALANCED REPRESENTATION

If I could comment further on that, it is very important that NIBS be perceived as not being owned by either the Government or the private sector because, if that is the perception, we lose our credibility. So we really need the Federal input to put our affairs in order to have a balanced representation.

Senator GARN. Senator D'Amato.

PREPARED STATEMENT AND SUBMITTED QUESTIONS

Senator D'AMATO. Mr. Chairman, thank you very much.

I have three other subcommittees, Mr. Chairman, all meeting at the same time, and I wonder if I might be permitted to submit a statement for the record and some questions.

Senator GARN. Certainly.

Senator D'AMATO. Thank you.

Senator GARN. So do I, but when you are the chairman, you get stuck with the one that you are chairman of.

[The statement follows:]

STATEMENT OF SENATOR D'AMATO

Mr. Chairman, I appreciate the opportunity to be here today. As I mentioned at this subcommittee's first fiscal year 1987 hearing 2 days ago, I think these first few hearings are particularly significant. Although the size of the agencies we are discussing is small relative to the overall Federal budget, it is important that we set a tone here which will reassure the American people that we are going to look diligently for ways to address our fiscal problems without sacrificing vital programs.

I would like to comment briefly on the next agency to testify today, the Council on Environmental Quality. The President has requested $820,000 for the Council for fiscal year 1987. This represents a substantial—almost 20 percent—increase over the fiscal year 1986 level of $700,000.

Members of this subcommittee are aware that the Council has, in the past, received comments from our House counterparts regarding the Council's need to develop in-house technical expertise. I note that, in today's testimony, the Council has indicated that they intend to use the additional funding proposed for fiscal year 1987 to create new positions for a science advisor, an environmental data and monitoring technician, a National Environmental Policy Act specialist, and a support staff position. I look forward to reviewing the Council's plans.

I also welcome Thomas Turnage, Director of the Selective Service System. I want to commend Mr. Turnage and the Selective Service System for the fine job his agency has been doing. The fact that 98.7 percent of those eligible for registration have done so speaks highly of the Selective Service System's efforts and of the commitment by Americans to the registration program. I am pleased to read in Mr. Turnage's statement that the Service is continuing to look for potential savings and to improve efficiency without compromising mobilization readiness. I am particularly interested in what effects the new Gramm/Rudman process will have on our mobilization readiness, and I hope this topic can be addressed here today.

Mr. Chairman, I am also pleased to join you for testimony on the Federal Home Loan Bank Board, the Neighborhood Reinvestment Corporation, and the National Institute of Building Sciences fiscal year 1987 budgets.

QUESTIONS SUBMITTED BY SENATOR D'AMATO

QUALITY IN CONSTRUCTION

QUESTION: The National Institute of Building Sciences has been undertaking several new initiatives. For example, ways of improving the quality in construction have been studied in some detail. Could you please submit for the record progress of this effort?

ANSWER: NIBS conducted two major conferences last year in Washington and Philadelphia on -- quality in construction. This is a subject to which we believe the American people will be demanding increased attention. NIBS expects to devote increasing resources to it.

Speakers at the conference noted that, increasingly, the lines of responsibility are becoming blurred among building designers, contractors, subcontractors and building owners or operators. Significant construction decisions these days sometimes are based, not on economics, artistry, or human safety, but on legal concerns and avoidance of liability.

We believe that the NIBS' consensus approach is particularly applicable to the task of causing the entire building community to focus on the issues connected with roles and responsibilities and achieving quality in building construction.

OTHER NEW INITIATIVES

QUESTION: Could you please tell me whether NIBS has planned any new initiatives for the coming year?

ANSWER: The Institute and its membership have undertaken several new initiatives which will benefit the building community especially the consumers who are a part of it.

The first addresses preparation of a guidance document for avoiding difficulties with problem soils on the building site. It has been reported that losses from inadequate consideration of problem soils were in the millions of dollars.

The second is to provide guidance on cost effective land development. It is noted that land and its development is the largest single cost element in the housing and building process.

The third is to prepare a document entitled "A Resource for Understanding How Building Codes and Standards are Used in the United States." Building codes and standards insure that the built environment provides for the safety, health and welfare of the public in its use of buildings. Model building codes and widely applied standards are developed as a means to convey knowledge of the necessary codes and standards features. However, many applications are in a modified form and these have been found to have an adverse impact.

BASIS FOR CONSTRUCTION DECISIONS

Senator D'AMATO. Mr. Chairman, do you have any good questions that you want to ask at Defense?

Senator GARN. Yes, but——

On page 4 of your statement, Mr. Moses, you say that, "Significant construction decisions sometimes these days are based not on economics, artistry, or human safety, but on legal concerns and avoidance of liability." Can you give us some examples of those concerns?

Mr. MOSES. Mr. Chairman, I think the statement that is included in my prepared document came as a direct quote out of a document that we produced as a result of one of those forums, and it is entitled "Roles, Responsibilities, and Liabilities in Construction," which we will leave with your staff.

Out of the discussion and some of my own personal activities where I have been involved in construction, I have noticed, as I am sure everyone here has, that court settlements have caused many insurance companies to withdraw their coverage, increase the premiums, and so forth.

There seems to be an attitude in the workplace today that when the job is completed, we will all get together and sue each other. As a result of that, everyone is afraid to communicate to the degree that they used to, and most of their dealings are based on legal concerns as opposed to quality of workmanship that used to be the case when I was a youngster and working on construction jobs.

We have simply noticed that, basically, subcontractors, and even the design professionals, have a reluctance to be involved in any greater degree than is absolutely essential in any project for fear of their liability.

We are attempting, and NIBS is interested in this matter, to bring those people together and continue to discuss those various issues to see if there are methods of communication and other things that can be done that will reduce that lack of trust that seems to exist out there in the real construction marketplace, with the idea that if we can do that, we can restore a greater quality of construction and have less concern by people in the building community about their potential liability.

CURTAILMENT OF FEDERAL AGENCIES COMMITMENT

Senator GARN. As I reviewed your statement, it is striking that the number of issues you cite as being important, where Federal agencies are being forced to curtail their efforts, such things as seismic standards, indoor air quality, agencies such as EPA, FEMA, and the Consumer Product Safety Commission, are being forced to reappraise their prior commitments and make rather large reductions.

Do you feel that NIBS can maintain a productive presence and influence where these previously federally funded efforts are being so constrained or terminated?

NIBS ABILITY TO SERVE

Mr. MOSES. Obviously, Mr. Chairman, our activities, to some extent, potentially may be affected. However, we think our mission is to respond to those areas where agencies or private enterprise need assistance or information, or the consensus expertise that NIBS can bring to a project.

We would obviously continue to respond, as we are needed, and, to the best of our financial ability, perform an increasing amount of pro bono work, which already exists in large measure. We don't really envision ourselves being left out in the cold, even though those activities may be somewhat reduced, or the requests for advice and assistance might be reduced from Federal agencies. We see that there remains a significant role for NIBS to play, and we would have the ability to respond under most circumstances in the years that lie ahead.

We don't see this as making substantial inroads into the activities that NIBS would be needed to perform.

Gene would also like to comment.

Mr. BREWER. I would like to comment, Mr. Chairman.

We have had several issues we were able to fund by getting participation and contributions from both the public and the private sectors where there was a joint concern. As a matter of fact, the asbestos model guide specs that we spoke of earlier were developed just that way, and NIBS will put in a substantial chunk of its base funding to help that out. The private sector and Federal agencies were asked to put in $5,000 each, and many did so.

It is my judgment that if the issue is clear enough, and there is need for the product, we will find some way to get it funded.

LEAD-BASED PAINT

Senator GARN. An issue confronting the subcommittee is the abatement of lead-based paint exposure in public housing.

Has NIBS done anything with respect to this issue?

Mr. BREWER. Not on lead-based paint, Mr. Chairman. That came about quite a little while ago. I think that lead-based paint is practically not in the market anymore, but I am sure there is still some that has not been taken out of existing buildings.

LEAD IN DRINKING WATER

However, we have a new problem with lead that is on the horizon, and that is lead levels in drinking water. In fact, a bill has passed the Senate from Senator Bradley, and it is over in the House being considered, and we may become involved in that.

Lead levels in paint, I think, are not a significant factor in the new market. I am sure there is some in old buildings that hasn't been removed yet, and it should be.

ASBESTOS

Senator GARN. You mentioned asbestos just a moment ago. What is NIBS doing to reduce exposure to asbestos?

Mr. BREWER. We are sticking our neck out. Asbestos is fraught with liability difficulties. Our Board decided that it was necessary that model guide specifications be developed. So, feeling that we could bring together the latest state-of-the-art and expertise, we have prepared a very detailed specific document which answers the, "How do you treat asbestos, if you have an asbestos problem?" question.

That latter issue has not really been addressed yet, and there is still work to be done on what you might call the assessment of the problem, if there is a problem. There is great concern about asbestos, some of it is real, and some of it is unnecessary because not all installations are harmful.

We intend to stay with asbestos because it hasn't gone away, and we will continue to work on it.

Senator GARN. Gentlemen, thank you. I appreciate your willingness to be here today.

Mr. MOSES. Thank you, sir.

COUNCIL ON ENVIRONMENTAL QUALITY AND OFFICE OF ENVIRONMENTAL QUALITY

STATEMENT OF A. ALAN HILL, CHAIRMAN

ACCOMPANIED BY:
JACQUELINE SCHAFER, MEMBER
DR. WILLIAM L. MILLS, MEMBER
DINAH BEAR, GENERAL COUNSEL
KEMP R. HARSHMAN, DEPUTY GENERAL COUNSEL

INTRODUCTORY REMARKS

Senator GARN. Next we would like to invite to testify the Council on Environmental Quality.

The Council on Environmental Quality was established by the National Environmental Policy Act of 1969 [NEPA], and the Environmental Quality Improvement Act of 1970. It is located within the Executive Office of the President. The Council's principal responsibility is to provide the President and the Congress with timely and authoritative advice on key environmental policy issues.

You are requesting $820,000 and 13 permanent positions. This represents a 20-percent increase over the fiscal year 1986 level. Quite an accomplishment in view of the extreme overall budgetary constraints. If you would please summarize your statement, we will be happy to include it in its entirety in the record. If you would like to begin, please.

INTRODUCTION OF ASSOCIATES

Mr. HILL. Thank you, Mr. Chairman, I am pleased to be with you today. I am Alan Hill, Chairman of the Council on Environmental Quality. With me are Dr. William Mills and Ms. Jacqueline Schafer, members of the Council. On my left are Dinah Bear and Kemp Harshman who represent the entire legal office at the Council on Environmental Quality.

PREPARED STATEMENT

I have a brief statement supporting the request for the appropriation of $820,000. I will skip the remainder of our brief statement, and we will go right to questions.

[The statement follows:]

STATEMENT OF A. ALAN HILL

Mr. Chairman and members of the subcommittee, I am pleased to appear before you today and thank you for the opportunity to discuss with you the President's budget request to support the activities of the Council on Environmental Quality and the Office of Environmental Quality for fiscal year 1987. With me this morning are the other two members of the Council—Dr. William Mills and Miss Jacqueline E. Schafer. In addition, I would like to introduce Miss Dinah Bear, General Counsel; and Mr. Kemp Harshman, Deputy General Counsel.

The President has requested an appropriation of $820,000 for CEQ for fiscal year 1987. This level of funding recognizes the resources needed to support an authorized personnel ceiling of 13 full-time equivalents [FTE's]. The proposed budget will enable the agency to fulfill its statutory objectives in a cost-effective manner.

Although this is a significant increase in funding for CEQ/OEQ, the request is within deficit reduction planning limits established for the Executive Office of the President as a whole.

The additional fiscal year 1987 funding will be used primarily for hiring additional technical and scientific staff members. The four new positions to be created include a science advisor, an environmental data and monitoring technician, a NEPA specialist to assist the General Counsel, and a support staff position to provide editorial services for the annual environmental quality report and clerical assistance with agency administrative functions.

The Council/Office has also taken two personnel actions in fiscal year 1986 in order to more effectively utilize its existing resources. First, the agency abolished the administrative position of its half-time Executive Officer and assigned the incumbent to work full time as the Deputy General Counsel. Second, the agency Administrative Officer has been detailed to another agency on a reimbursable basis for the remainder of the current fiscal year. That position will be abolished at the end of fiscal year 1986.

As you can see, the agency is undergoing a major reorganization of its personnel resources. These changes are required for the Council and the Office to fulfill their statutory responsibilities under NEPA, 14 other Federal laws, two treaties, and 3 executive orders. The increase in scientific and technical personnel will provide the agency with its own expertise to contribute independent policy advice to the President, Executive Office, and the Congress.

The agency program accomplishments and plans for future activities are described in detail in the budget justification.

This concludes my prepared statement. The members of the Council and I would be happy to answer any questions you have regarding the Council and our fiscal year 1987 appropriation request.

LEVEL OF FUNDING

Senator GARN. It is sometimes difficult for the subcommittee to keep its perspective when reviewing the budget for an agency requesting a total of $820,000 when we have other agencies with budgets 10,000 or even 33,000 times larger. Curiously, we sometimes find it easier to deal with the expenditure amounts with a whole lot of zeros following the figure. As a matter of fact, in the Appropriations Committee, we sometimes round off to the nearest $50 million.

Sometimes it is harder to deal with these sums that have a closer relationship to amounts that we really understand and comprehend as individuals.

Mr. Hill, you state that your requested level, an increase of 20 percent over the levels appropriated over the past 2 years, will enable the agency to fulfill its statutory objectives in a cost-effective manner.

Since there hasn't been any significant change in your statutory duties or responsibilities, and your personnel changes this year increase efficiency without any budgetary impact, what has changed to justify the increase in funding?

Mr. HILL. This increase represents full funding for 13 full-time equivalents. Currently, the Council is running at about 9½ FTE's, which includes the three of us as members, and 6½ staff people that support agency activities.

The decision was made in the budget process to fully fund the 13 FTE's level, which is the $820,000 figure.

Senator GARN. I would say, having nearly half of your entire staff here in relationship to your budget, those who have 33,000 times the budget, I am glad they don't show up at the hearings with half of their personnel.

[General laughter.]

DETAILEES TO CEQ

As you know, this subcommittee has been concerned over the utilization of detailees, especially nonreimbursed detailees, as a means of circumventing program levels enacted by the Congress. With a staff of only 13, each additional detailee represents a significant augmentation of your program.

What guidelines and procedures do you follow in this respect, especially in the determination of whether reimbursement is provided?

Mr. HILL. Mr. Chairman, we do several things. One is that we do not exceed the 13 FTE's level with detailees. Second, we have instituted a program of interagency agreements which clearly state the purposes for which detailees are at the Council. Generally, those are to assist the Council in its work that would normally be done at the sending agency.

In other words, we cooperate, and we initiate projects with other agencies, and quite often there is similar work done at the agency. In the case of these three detailees, they are doing work at the Council which they would normally do at their own sending agency.

Senator GARN. Last year, your agency provided a tabular listing of detailees for our hearing record. Could you update that for us for fiscal year 1986 and indicate the total number of detailees and months of service for fiscal year 1985 and your estimate for fiscal year 1986?

Mr. HILL. Yes, sir.

[The information follows:]

DETAILEES TO COUNCIL ON ENVIRONMENTAL QUALITY

[As of March 19, 1986]

Parent agency/responsibilities	Months of service	Fiscal year	Reimbursable
Department of Agriculture: Secretary	12	1985	No
Department of Agriculture: Science policy	2	1985	No
Department of the Interior: Environmental monitoring and data	12	1985	Yes
Department of the Interior: Environmental Trends report	12	1986	No
Environmental Protection Agency: Annual report; Global Environmental Issues	12	1985	Yes
Environmental Protection Agency: Annual report	6	1986	No
Government Printing Office: Annual Report—Printing, binding, and distribution; public affairs	5	1985	No
Department of State: Global environmental issues	12	1986	No

LONG-TERM ENVIRONMENTAL RESEARCH AND DEVELOPMENT

Senator GARN. In March 1985, you published your report on long-term environmental research and development. A problem common to many such studies is that although a great deal of thought and consideration goes into their preparation, little or none of the recommendations are followed when it comes time for implementation. For example, overall EPA R&D is proposed for a $30 million reduction, nearly 15 percent, from our fiscal year 1986 appropriation level.

What steps have you undertaken with respect to implementing the study's findings?

Mr. Hill. Three specific activities. One is to transmit this report to the agency heads in the operating agencies in the hope that they will use that report to make priorities as they face their budget decisions.

Second, we have sponsored, with other agencies, a followup conference on Superfund research that is needed. That report will be published next month. An additional report is in preparation now on multimedia health effects. It was done under a contract with the Conservation Foundation last week. The Conservation Foundation sponsored a 1-day conference on the topic and those proceedings will be published this summer.

INTERNATIONAL ACTIVITIES OF CEQ

Senator Garn. Last year, the subcommittee unsuccessfully attempted to permit your agency's participation in a conference in Japan to discuss environmental policies of that country. I note that your justification of major programs for fiscal year 1987 lists 4 international activities for a total of 10 planned, an increase from 3 of 13 underway this year.

Are we seeing a shift in the role of CEQ to a point where only a limited number of domestic issues are being addressed?

Mr. Hill. No, Mr. Chairman. What you are seeing here is the reflection of the Council's involvement in various conventions, agreements, and so forth.

Thank you very much for your efforts with regard to the trip to Japan. It is interesting that last year, we were not able to get the funds, and no one traveled on Council travel expenditure anywhere outside of the country. This year, our expense thus far has been $300 for foreign travel.

We are involved in interagency coordination with international activities. We try to coordinate across the executive branch. Typically, if an agreement is in the area of air quality, for instance, the Environmental Protection Agency will do the travel, and do the participation, and we would coordinate with the other interested Federal agencies. So that is what we are doing.

Senator Garn. In the case of the World Commission on Environment and Development, participation by CEQ is at the request of the Department of State which has assigned a foreign service officer to advise Chairman Hill.

In what other ways is the State Department providing technical or budgetary support for the activity? I understand that even though they invited you to go, they were not willing to provide travel funds.

Mr. Hill. That is correct. The State Department participates with the Council and other interested Federal agencies in the preparation of papers, the review of papers coming from the World Commission, and preparation of papers for use by the World Commission, which is an independent organization that was established by the United Nations' General Assembly. One American serves on that—William Ruckelshaus. But he does not serve as a representative of the Federal Government of the United States; he serves in his individual capacity as an American citizen.

WORST CASE ANALYSIS REGULATION

Senator GARN. Last year a number of questions were raised in our hearing with respect to National Environmental Policy Act oversight, specifically your consideration of an amendment to the worst case analysis regulation. It appears from your justification that the amendment will be published shortly.

Do you expect significant workloads to continue with respect to this amendment?

Mr. HILL. We would have the normal ongoing guidance function to Federal agencies. We are working with the U.S. Forest Service currently, planning a followup seminar after adoption and promulgation of the regulation, which would assist especially our land management agencies in interpreting and developing the necessary training materials for the new regulation when it is in place.

Senator GARN. Assuming that litigation is initiated with respect to the amendment, what assistance can you expect from the Justice Department and other Federal agencies?

Mr. HILL. All that we can get.

Senator GARN. That is what you would like. I asked, what can you expect?

Mr. HILL. Mr. Chairman, early on in the worst case analysis question, we had some difficulty with individuals at the Justice Department. Those difficulties have been resolved, happily. We expect a productive relationship, not that we expect any litigation to arise from this regulation, because we think that we are doing a very careful job, considering the 184 comments that came in, in preparing a wise regulation.

This regulation will cover those times that the preparer of an environmental impact statement faces missing or incomplete information. We will be proposing what we feel is a wise method, a manageable method, for handling those situations.

SUBMITTED QUESTIONS

Senator GARN. I have a number of questions I would like to submit on behalf of Sentor Proxmire for your response.

Mr. HILL. We would be happy to respond.

[The following questions were not asked at the hearing but were submitted for response for the record:]

QUESTIONS SUBMITTED BY SENATOR PROXMIRE

PURPOSE OF BUDGET INCREASE FOR FY 1987

Question: The Council on Environmental Quality is getting a big increase for FY 87. You say in your budget request that this increase (17%) won't implement new programs and will only restore funding to previous planning levels. What previously unfunded programs or projects will you now be able to carry out with these increases?

Answer: The increase in budget requested for FY 87 is needed by the agency to fund additional staff positions within the agency's previously established personnel ceiling of 13 FTEs. (At present, CEQ/OEQ is only able to fund 9-1/2 FTEs.) This will result in the hiring of a science advisor, a NEPA specialist, an environmental monitoring and data technician, and a support staff member. The science advisor will primarily assist the Members of the Council in formulating environmental policies. The NEPA specialist will be assigned to the General Counsel's Office. The environmental data technician will supervise the agency data and monitoring program. The support staff member will provide editorial services for the annual Environmental Quality Report. These new staff members will be utilized within existing agency programs to carry out the agency's statutory responsibilities in a more effective and efficient manner.

CRITERIA FOR CRYSTALLINE NUCLEAR WASTE REPOSITORY SITES

Question: You mention that Agency personnel will be involved with, among other subjects, nuclear waste. By statute, CEQ reviews guidelines and environmental impact statements for repository site selection. At what point will you be looking at site selection criteria? Do you wait until the sites have been narrowed down to the last 5 candidate sites, the last three, or some other point? Have you been involved with reviewing site selection criteria for the Area Recommendation Reports (ARR) just issued for the second round crystalline repository sites (the granite sites)? I am very troubled by the kind of selection criteria used by the Department of Energy and think they could be improved. Would you participate in this process?

Answer: The Council on Environmental Quality has two statutory responsibilities under the Nuclear Waste Policy Act: to consult with the Department of Energy in the development of general "guidelines" for recommendation of sites for nuclear waste repositories (Sec 112) and to comment upon the environmental impact statement prepared for a site repository recommendation (sec 114). In addition, CEQ has offered its services to DOE in resolving any conflicts between federal agencies related to environmental aspects of the repository program, or related to the requirements of the National Environmental Policy Act. The area screening process uses the DOE Siting Guidelines developed under section 112 of the Act as the basic criteria for identifying the preferred site locations in the crystalline rock regions under consideration. These Guidelines were established in accordance with the rulemaking process, with full public participation. DOE held public hearings in various regions of the country, published the draft guidelines in the Federal Register for public comment, and consulted with federal agencies, state governments, and tribal councils of affected Indian tribes. The Council participated in this process. The Guidelines were issued as a final rule in 1984. Nevertheless, if DOE decides to revise the criteria set forth in the Siting Guidelines regulation, CEQ would be willing to participate in that process. In the meantime, the Council has scheduled a Sunshine Act meeting at which representatives from the DOE Office of Civilian Waste Management will brief the Chairman and Members about the Nuclear Waste Policy Act, particularly as it relates to environmental quality concerns.

ADMINISTRATION POSITION ON ACID RAIN PROBLEM

Question: Another important CEQ duty is development of international environmental policy. Perhaps the most important current international environmental policy is what to do about acid rain. But the Administration's only action to date is to say that the problem needs more study. The error of this view is clear, now that the Mexicans are about to open a giant smelter right on our border with them which will spew huge amounts of pollutants over the Southwest. How can we take any action regarding the Mexican problem when we insist it's not time to act to protect Canada from the pollution we cause?

Answer: It is not accurate to say that the Administration has not taken any action to abate the acid precipitation problem. In the first place, the United States has made a substantial contribution to the reduction of sulfur dioxide and nitrous oxides under the Clean Air Act. The government has a major ongoing air pollution clean-up program under the existing law to further reduce emissions that are suspected to cause acid precipitation.

Secondly, the United States has been working with the Canadian government on a joint program to study and control the acid precipitation problem. The President has appointed a Special Envoy to direct the U.S. efforts in this area, and coordinate efforts with the Special Envoy from Canada. The President has just endorsed the Joint Report of the Special Envoys that specifies further corrective actions to be taken by both countries. For its part, the Administration will continue to pursue current programs whose goals are to develop and demonstrate innovative control technologies to burn coal more cleanly.

In addition, the President is directing the federal agencies take the following steps in order to implement the cooperative activities and research recommendations of the Special Envoys:

- o identify and assess cost-effective and innovative approaches to reduce emissions of the precursors of acid precipitation;
- o establish an interagency group to advise the President on transboundary air pollution and to serve as a forum for continuing discussions with a similarly constituted Canadian group; and
- o conduct a coordinated interagency review of relevant research about the causes, effects, and possible methods of mitigating the results of acid precipitation.

Note too, that since 1981, the Administration has spent $225 million for acid precipitation research as part of its interagency task force on acid precipitation (National Acid Precipitation Assessment Program). Current plans call for an additional $255 million for continued research in this area between now and 1989.

Finally, in 1983, Presidents Reagan and de la Madrid, of the United States and Mexico, entered into the Border Environmental Cooperation Agreement, a treaty that established an air pollution working group. In a meeting on July 18 of last year, representatives to the working group from both countries agreed to a control program for sulfur emissions from both sides of the border. Scrubbers will be installed on existing and new facilities in both the U. S. and Mexico no later than January of 1988. Currently, the Mexican government is in the process of selecting a contractor to install the required equipment by the deadline date.

Senator GARN. Thank you very much. I don't have any additional questions unless any of you would like to make any closing remarks.

Mr. HILL. Thank you very much.

Senator GARN. Thank you, sir.

SELECTIVE SERVICE SYSTEM

STATEMENT OF THOMAS K. TURNAGE, DIRECTOR

ACCOMPANIED BY G. HUNTINGTON BANISTER, CONTROLLER

CHAIRMAN'S INTRODUCTORY REMARKS

Senator GARN. Next we have before the subcommittee the Selective Service System.

General Turnage, we are happy to welcome you here again before the subcommittee this morning. I assume that the next time you testify before us the budget of the agency you will be heading will be $27 billion rather than $27 million.

For those who do not know, the President intends to send General Turnage's name to the Senate for confirmation as Administrator of the Veterans Administration. I don't want you to think that suddenly we are going to turn the Selective Service System into a $27 billion a year agency, so I want to hurry and add that.

The Selective Service System is responsible for the registration of men at the age of 18 years. It conducts a nonregistrant identification program, maintains a data base of registrant records, and conducts training to insure a rapid mobilization capability.

In fiscal year 1987, the Selective Service System is requesting $27.47 million and 276 positions, which is exactly what you requested in fiscal year 1986. There are now over 13 million registrants in the system.

We would be happy to hear your statement at this time.

STATEMENT OF THE DIRECTOR

General TURNAGE. Thank you, Mr. Chairman. I appreciate your very kind remarks.

At the outset, let me introduce Mr. Huntington Banister, the Controller of the Selective Service System, who will join me here in this testimony this morning.

It is pleasure to appear here today and report that the Selective Service continues to achieve an extraordinarily high rate of registration. Approximately 12 million draft-eligible young men are currently registered, and that is approximately 98.7 percent of the estimated potential for that particular category. This obviously reflects a high rate of public support for the program.

ROLE OF THE CONGRESS

Congress has played a key role in all this support, and in particular I would like to mention the Thurmond-Montgomery amendment requiring all applicants for jobs in the executive branch to be registered, if required to do so, as a condition of employment.

SOLOMON AMENDMENT

The Selective Service is also bolstered by Solomon-type laws which have been passed by several States, and are also pending in the legislature of several more.

SAVINGS

Based on our capability to meet our emergency mission, and the successful registration program, we will not request any new funding, nor initiate any new programs in fiscal year 1987. In fact, we are bending every effort to identify areas of potential savings and streamlining in order to maximize efficiency and economy in our programs and operations.

We will not, however, decrease emphasis on mobilization readiness, nor on the Registration Improvement Program.

PUBLIC AWARENESS

A major part of getting young men registered is public awareness, and in this regard, we mount intensive television and radio public service announcement campaigns aimed at 18-year-old young men and their influencers. We also send comprehensive materials to high schools and colleges, and we continue to work with State and local governments for proclamations of support, and with other agencies of the U.S. Government to get our message across.

Seven States now require registration as a prerequisite for receipt of State education aid. Many States require registration as a precondition to service on the State police force, or even admission to the State bar. Such requirements make our job easier and enhance the equity in the system. We are delighted with them.

READINESS AND TRAINING

Our readiness to perform our mobilization mission, supplying manpower in times of national emergency, continues to improve. Presently, 10,450 of our 11,000 appointed board volunteers are trained. Those who are not trained represent new members who will be trained in the coming year. Training of our reserve force officers remains one of our highest priorities.

The readiness of the 728 Reserve Forces officers is vital to successful mobilization operations. Our mobilization plans include immediate office expansion from 9 to 575 sites, which is an increase from less than 300 people to more than 5,200 in the event of mobilization.

We continue to train our Reserve Forces officers in the systems to be used in times of emergency, to mobilize the necessary manpower for our national defense. These officers have received detailed training on how to constitute the field structure in time of mobilization, and participated in exercises to test their readiness to perform these duties.

Our Registration Improvement Program continues to move forward, and we are now concentrating our efforts on target cities and the geographical areas where our shortfalls are the greatest.

COMPLIANCE PROGRAM

We have commenced a tape match with the Department of Education on the Pell grant applicants and recipients, thus giving us a cross-check on whether these millions of young men are, in fact, in compliance with the Solomon amendment.

Our compliance program continues to gain in effectiveness as we expand the data that we receive by matching lists with the Department of Defense, the Coast Guard, the Veterans Administration, the Department of Education, the Department of Transportation, the voter registration lists, and department of motor vehicle lists from nearly all the States.

Over 1 million registrations have been generated by our compliance program as of December 1985.

SERVING THE PUBLIC

Our efforts to produce better and better compliance has another side. The number of public inquiries rose proportionally as the number of programs requiring registration as a condition of receiving benefit increases. Use of our toll-free number continues to increase. In order to meet the demand, resources have been shifted from other functions into the public service area, and we have contracted out some of the routine, nontechnical tasks to private firms.

This simply means that we are handling an increasing workload with the same number of personnel.

INDUCTION PROCEDURES

In the area of induction and claims processing, in coordination with the Department of Defense, we are compiling a list of obviously physically disqualifying conditions which render a registrant unacceptable for military service. With this list, we will be able to establish procedures wherein a person with an obviously disqualifying condition could be classified without undergoing the Armed Forces physical examination.

We are also developing alternative methods of induction for use after the initial surge of a mobilization draft, to provide for a more orderly system of processing.

Our Alternative Service Program is undergoing further testing and refining, the latest being automated case tracking and monitoring which has been tested and found to be effective.

DATA PROCESSING AND CONCLUSION

We continue to process almost 2 million new registrations a year. Additionally, changes of addresses are posted on a continuous basis in order to assure that we can reach the draft eligible individuals in a time of emergency.

I am pleased to report that, as a bottom line, our system remains ready to accomplish its basic mission—that is, to maintain a capability to furnish the required manpower on time to the Department of Defense—using a system which is both consistent and equitable.

I will be pleased to respond to your questions.
[The statement follows:]

STATEMENT OF THOMAS K. TURNAGE

Mr. Chairman, distinguished members of the subcommittee, I am pleased to come before you again to report that our Nation's Selective Service System is in a high state of readiness to perform its mission. As before, we continue to maintain a high registration compliance rate among our draft-eligibles—20 years and older—at 98.7 percent. There are over 12 million of these draft-eligibles registered. This fact mirrors the high rate of public support and acceptance of the Selective Service Program. Of course, we do not achieve these objectives in a vacuum and the support of the Congress has been excellent in every respect. In particular, I would like to mention the Thurmond-Montgomery amendment requiring all male applicants for jobs in the executive branch to be registered as a condition of employment. The effectiveness of our program has been bolstered also by the passage of Solomon-type amendments in the States, which now number seven, with several measures pending in State legislatures. Our two main thrusts will be on mobilization readiness and registration improvement. In both cases we seek to improve accomplishments to date. As you know, we are not requesting any additional funding nor are we initiating any new programs next year. We have made every effort to identify areas of potential savings and are streamlining all our operations in order to maximize efficiency and economy in our basic programs and operations.

PUBLIC AWARENESS

We conduct an intensive public awareness program to make young men and their influencers aware of the registration requirement. This is a constant challenge, since there are almost 2 million men who turn 18 each year at the rate of 5,000 per day. We rely heavily on TV and radio public service announcement campaigns as well as comprehensive mailings to high schools and colleges to make young men aware of their legal requirement to register. We also make every effort to communicate with our growing Hispanic and Asian population. A vigorous public awareness program is vital to the success of our mission.

REGISTRATION IMPROVEMENT

Our Registration Improvement Program continues to move forward and we are now concentrating our efforts on the target cities in geographical areas where our registration shortfalls are the greatest. In another major effort this year, we are processing tapes received from the Department of Education containing the names of applicants for Pell grants as well as those receiving the grants. Since Federal student aid moneys are limited, and may become more limited, we feel it is both just and proper that these taxpayers' funds go only to those men who obey the law and register with Selective Service. Matching of tapes will give us a check on compliance with the Solomon amendment for the millions of young men who apply for these funds every year.

The Office of Personnel Management and the Postal Service may also begin tape matches with us in the months ahead. This would give us a further check on the compliance of thousands of additional young men. Moreover, we will continue to match lists from the Department of Defense, the Veterans Administration, the Department of Transportation, motor vehicle departments from nearly all the States, and numerous voter registration lists. Males whose names are not found on our registration list will be sent compliance letters. This method has proven to be effective and such letters have resulted in over a million registrations as of December 1985. We intend to improve registration and compliance levels throughout the country. We are tailoring such efforts to the point where they will be most effective to the local level. To accomplish this we coordinate closely the efforts of our State directors, Reserve forces officers, and uncompensated board members.

All of these things are being done to strive for maximum adherence to the law with its resultant enhancement of equity in the system. In the event of a national emergency, each man who is not registered increases the vulnerability for service of those who obey the law. Thus, nonregistration is not a victimless crime.

PUBLIC SERVICE

Our efforts to produce better registration compliance has another side, however. The number of public inquiries and requests for registration information increases proportionally with the addition of new programs requiring registration as a condition for receiving benefits. The use of our toll-free number continues to be used on an increasing basis and, in order to meet that growing demand, we have added toll-free lines during this fiscal year to include the States of Hawaii and Alaska. Further, in order to handle these calls efficiently, our Data Management Center has parceled out routine, nontechnical tasks to private firms. This results in the accommodation of an increased workload without increasing personnel support. We responded to 288,712 calls during fiscal year 1985 and we project an increase to 400,000 calls during fiscal year 1986.

AUTOMATED DATA PROCESSING

Selective Service ADP facilities include the Data Management Center in Illinois and the Computer Center in Virginia. The Data Management Center provides the data entry, error correction, mail, logistics, and computer operations support required to process continuous registration and inquiries from the public via the toll-free lines. The Computer Center provides a system development and enhancement capability in support of registration activities and administrative functions. We continue to process about 2 million new registrations a year at the Data Management Center. Additionally, changes of address for prior registrations are posted on a continuous basis in order to insure that we can reach the registrants in time of emergency.

READINESS AND MOBILIZATION

The readiness of volunteer local and district appeal board members continues to improve. Presently, our board structure is at 95 percent fill and 10,452 of the 11,040 appointed board member volunteers are trained. Those who are not trained represent new members who will be trained in the coming year.

The readiness of the 728 Reserve forces officers who provide the necessary leadership to activate the field operating system and assist in the expansion of our capabilities in time of mobilization also continued to improve. They have received detailed training on how to reconstitute the field structure in time of mobilization and have participated in joint exercises to test the call-up system. These officers would immediately expand our system from the peacetime structure of 9 sites to 575 sites during mobilization and be fully operational in 3 days. They have also received instruction on the hiring and training of the additional 4,900 personnel required to operate the system. This readiness will continue to be tested in exercises during the next fiscal year.

INDUCTION AND CLAIMS

In the area of induction and claims processing, we are compiling, in coordination with the Department of Defense, a list of obviously physically disqualifying conditions which would render a registrant unacceptable for military service. With this list, we will be able to establish procedures wherein a person with an obvious disqualifying condition could be classified without undergoing an Armed Forces physical examination. We are also developing alternative methods of induction for use after the initial surge of a mobilization draft which will provide for the more orderly processing of conscription.

Our Alternative Service Program is undergoing further testing and refining. The automated case tracking and monitoring has been tested and found to be effective, increasing our readiness in this area as well.

CONCLUSION

It is very pleasing to me to again be able to report that our system remains ready to accomplish its basic mission—that of providing manpower in wartime or emergency, on time, and in the numbers requested by the Department of Defense.

Thank you, and I am now ready to respond to your questions.

OMB REQUEST

Senator GARN. Is the amount requested in your budget justification different from the request you made to OMB?

General TURNAGE. Yes, sir, it is.

Our request to OMB was approximately $28.9 million, and that is $1,450,000 more than is reflected in our budget justification submitted to the Congress. The agency participated fully with OMB in the decisions made relative to those programs, however, and OMB did support our request for the 277 full-time equivalents to which you referred in your opening remarks.

IMPACT OF GRAMM-RUDMAN

Senator GARN. You will have to take a 4.9-percent reduction, or $1.3 million, in fiscal year 1986 because of the automatic sequestration that is going to take place due to Gramm-Rudman.

What will be the impact of these reductions?

General TURNAGE. There are about four areas, sir, that we had to review to accommodate that reduction. The annual training for Reserve Forces officers has been reduced from 15 days to 13 days annually. In conjunction with this reduction in days, the regional conferences also have been reduced in days from 5 to 3, and have been made State conferences as opposed to regional conference.

We have had some modifications in our board member continuation training that for the civilian review by converting that to a self-study package as opposed to in-residence type of training.

The Registration Improvement Program has been scaled down and various administrative cuts have been made throughout the agency to accommodate the cuts suggested.

FISCAL YEAR 1986 FIGURES ADJUSTED FOR PUBLIC LAW 99-177

Senator GARN. For the record, would you revise the tables on pages 18, 19, 22, and 23 of your budget justification to show the fiscal year 1986 numbers adjusted for Public Law 99-177?

General TURNAGE. We will be pleased to do so.

[The information follows:]

STANDARD FORM 300
July 1964, Bureau of the Budget
Circular No. A-11, Revised.

SELECTIVE SERVICE SYSTEM
SALARIES AND EXPENSES

OBJECT CLASSIFICATION (in thousands of dollars)

Identification code 90-0400-0-1-054	19 85 actual	19 86 estimate	19 87 estimate
Personnel compensation:			
11.1 Full-time permanent positions....	6,426	6,355	6,492
11.3 Positions other than permanent...	248	426	405
11.5 Other personnel compensation.....	429	227	330
11.8 Special personal services payments.........................	6,595	6,393	6,773
11.9 Total personnel compensation.....	13,698	13,401	14,000
12.1 Personnel benefits: Civilian....	950	1,122	1,136
13.0 Benefits for Former Personnel....	40	40	40
21.0 Travel and transportation of persons.........................	775	638	863
22.0 Transportation of things.........	46	6	13
23.1 Standard level user charges......	814	849	885
23.2 Communications, utilities, and other rent.......................	3,042	3,014	3,137
24.0 Printing and reproduction........	1,068	732	792
25.0 Other services...................	6,230	5,956	6,248
26.0 Supplies and materials	361	280	294
31.0 Equipment........................	371	90	66
42.0 Claims and Indemnities...........	4	---	---
99.9 Total obligations................	27,399	26,128	27,474
Pursuant to Public Law 99-177			

STANDARD FORM 300
July 1964, Bureau of the Budget
Circular No. A-11, Revised.
300-101

SELECTIVE SERVICE SYSTEM
SALARIES AND EXPENSES

PERSONNEL SUMMARY

Identification code 90-0400-0-1-054	19 85 actual	19 86 estimate	19 87 estimate
Total number of full-time permanent positions	276	276	276
Total compensable workyears:			
Full-time equivalent employment	274	273	277
Full-time equivalent of overtime and holiday hours	10	5	10
Average ES salary	69,600	69,266	69,266
Average GS grade	7.94	7.83	7.83
Average GS salary	22,970	22,820	23,178
Average salary of ungraded positions	19,513	19,200	19,200

SELECTIVE SERVICE SYSTEM

Major Information Technology Acquisition Plans
1986 - 1991
(in thousands of dollars)

Item: Purchase of Hardware

Obligations:

1986	1987	1988	1989	1990	1991
28	29	29	30	31	32

Description: Routine replacement cost of terminals, keyboards, modems, etc. No new major acquisition of hardware anticipated at this time.

Item: Lease of Equipment

Obligations:

1986	1987	1988	1989	1990	1991
44	45	47	49	50	51

Description: Routine on-going costs of renting terminals and printers.

Item: Commercial Services

Obligations:

1986	1987	1988	1989	1990	1991
751	839	872	902	928	949

Description: Routine on-going expenses related to leased telecommunications, maintenance of ADP equipment and data entry services.

Note: Increases in obligations reflect OMB's economic assumptions through fiscal year 1991.

REPORT ON OBLIGATIONS FOR INFORMATION TECHNOLOGY SYSTEMS

SELECTIVE SERVICE SYSTEM

OBLIGATIONS FOR INFORMATION TECHNOLOGY SYSTEMS

	1985	1986	1987
1. Capital Investment ($000)			
A. Purchase of hardware	231	28	29
B. Purchase of software or other equipment	25	20	35
C. Site	22	17	18
Subtotal	278	65	82
2. Personnel ($000)			
A. Compensation, benefits and travel	2,988	3,050	3,117
B. Workyears	(127)	(128)	(128)
Subtotal	2,988	3,050	3,117
3. Equipment rental, space and other operating costs ($000)			
A. Lease of equipment	39	44	45
B. Space	372	483	532
C. Supplies and other	314	420	437
Subtotal	725	947	1,014
4. Commercial services ($000)			
A. ADPE time	103	113	118
B. Leased telecommunications services	302	335	349
C. Operations and maintenance	432	303	372
D. Systems analysis and programming	-0-	-0-	-0-
E. System design and engineering	-0-	-0-	-0-
F. Studies and other	-0-	-0-	-0-
Subtotal	837	751	839
5. Interagency services ($000)			
A. Payments	721	966	1,007
B. Offsetting collections	-0-	-0-	-0-
Subtotal	721	966	1,007
TOTALS			
Total Obligations	5,549	5,779	6,059
Workyears	(127)	(128)	(128)

Senator GARN. You have often indicated that your primary goal is to register men, not to prosecute them.

I recognize that you are not requesting an increase in funds for the Public Awareness Program. What will you be doing in fiscal year 1987 to increase registration and how will this differ from what has been taking place previously?

General TURNAGE. Sir, we will be reducing the scope and the use of funds in that program. However, we will not be reducing any of the particular functions involved in that program.

For example, we have been able to, by virtue of having the cooperation of some very prestigious people in sports, in entertainment, media, and otherwise, to have provided, without cost, public awareness messages for us which we will continue to use and which have had great reception from the media in their play.

We will be able to continue with all of the other programs, but on a more modest scale.

CHANGE IN NUMBER OF REGISTRANTS

Senator GARN. In your opening statement, you indicated that there were over 13 million registrants in the system. Last year, you testified that there were 13.6 million registrants, and the year before that 11.6 million.

You indicated that you would soon start dropping the older registrants out of the system as they reach age 26. Is that why there was a slight decrease between last year's registrants and this year's number?

General TURNAGE. Yes, sir. As a matter of fact, as the program was originally conceived or embraced, we would end up overall with 8 years of birth group within the program; that is, people from age 18 through 25.

It started in the summer of 1980 with registration of 2 years of birth groups, 1960 and 1961. In January 1981 we registered year of birth group 1962, and then started the normal routine of registration as young men turned 18.

At the end of 1985 is the first time that we were able to retire 1 year of birth group from the system. At the peak of the numbers of people involved, we had some 15.4 million who had registered with us. We dropped out about 2.1 million starting January 1, and that accounts for the variation in the figures.

Senator GARN. I assume this trend will continue, then, as you drop out each year the 26-year-olds. What are your projections for the maximum number of possible registrants?

General TURNAGE. It could, I assume, be something approaching the 15 million mark. However, in each year of birth group, we have had a decreasing number. So we think that 15.4 million was probably the high point. However, it will still, from the standpoint of the draft eligibles, probably exceed 13 million, more than an ample pool to meet the needs of the Nation in the event of an emergency.

INCREASE IN BUDGET CATEGORY OF OTHER SERVICES

Senator GARN. Outside of personal compensation and benefits, 75 percent of your obligations shown on page 18 of your justification are in object class 23.3, "Communications, utilities, and other rent," or object class 25.0, "Other services," your largest nonpersonnel category. "Other services" went from $3.9 million in fiscal year 1984 to $6.2 million in fiscal year 1985.

What is the reason or the justifidation for this large increase in the category of "Other services"?

General TURNAGE. The largest increase in fiscal year 1985 was the cost of the military pension accrual associated both with our active duty officers as well as the Reserve Force program, and special tours for the agency. Essentially, that counted for most of it.

Senator GARN. Could you provide, for the record, a detailed breakdown by year for each of those categories from fiscal year 1984 to fiscal year 1987?

General TURNAGE. Yes, sir, we will.

[The information follows:]

OBJECT CLASS 23.3 COMMUNICATIONS, UTILITIES AND OTHER RENT

	FY 1984	FY 1985	FY 1986	FY 1987
EQUIPMENT AND MISC. RENT	$373,000	$128,000	$165,000	$171,000
TELEPHONE AND TELECOM. LINES	557,000	675,000	751,000	682,000
POSTAGE	2,000,000	2,239,000	2,217,000	2,284,000
TOTAL	$2,930,000	$3,042,000	$3,133,000	$3,137,000

OBJECT CLASS 25 - OTHER SERVICES

	FY 1984	FY 1985	FY 1986	FY 1987
REPAIRS, ALTERATIONS AND SECURITY	$104,000	$226,000	$87,000	$91,000
EQUIPMENT MAINTENANCE	397,000	403,000	462,000	481,000
EMPLOYEE SERVICES	162,000	168,000	120,000	125,000
REGION & DMC SUPPORT	403,000	383,000	469,000	488,000
MILITARY PENSION ACCRUAL	0	2,600,000	2,711,000	2,764,000
USPS REGISTRATION	963,000	993,000	946,000	1,008,000
MEPCOM	812,000	546,000	733,000	764,000
FEMA AND DOI	77,000	50,000	101,000	105,000
SSA	28,000	20,000	33,000	34,000
PUBLIC AWARENESS	449,000	472,000	318,000	175,000
ADP OPERATIONS	83,000	173,000	100,000	104,000
MISCELLANEOUS	433,000	196,000	105,000	109,000
TOTAL	$3,911,000	$6,230,000	$6,185,000	$6,248,000

NOTE: FY 1986 ESTIMATES ARE BEFORE THE REDUCTION DUE TO P.L. 99-177.

SUBMITTED QUESTIONS

Senator GARN. General, I have a number of questions I would appreciate your responding to in order to effect a more complete hearing record.

General TURNAGE. I would be glad to do so, Senator.

Senator GARN. Thank you very much, General.

General TURNAGE. Thank you, Mr. Chairman.

[The following questions were not asked at the hearing but were submitted for response for the record:]

Questions Submitted by Senator Garn

AUTOMATED DATA PROCESSING

Question: What is the anticipated cost of running the Data Management Center in Illinois in FY 86 and FY 87?

Answer: Excluding personnel compensation and benefits, the anticipated cost of running the Data Management Center in FY 1986 is $2,143,000 and $2,262,000 in FY 1987.

Question: What were the actual costs in FY 84 and FY 85?

Answer: Excluding personnel compensation and benefits, the actual costs of running the Data Management Center were $2,227,000 in FY 1984 and $2,316,000 in FY 1985.

Question: What will be the cost of sending the routine non-technical tasks to private firms outside the agency?

Answer: The cost of sending the routine non-technical tasks to private firms will be $50,000 in FY 1986 and $104,000 in FY 1987.

Question: Have we done this in the past? If so, what were the costs?

Answer: Yes, we have sent routine tasks to private companies in the past. It cost $83,000 in FY 1984 and $173,000 in FY 1985.

Question: Would you please provide answers to all the aforementioned questions for the Computer Center in Alexandria, VA.?

Answer: Excluding personnel compensation and benefits, the cost of operating the Alexandria Computer Center is as follows: $398,000 in FY 1984, $217,000 in FY 1985, $226,000 in FY 1986 and $229,000 in FY 1987. The Alexandria Computer Center does not send non-technical tasks to private firms.

Question: Would you also provide a list of ADP contract spending comparable to that on page 92 of our FY 85 Senate Hearing identifying the amount and purpose of each ADP contract from FY 82 to that anticipated in FY 87?

Answer:

	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87
Contractual Support for RIMS	$225	$95	$-0-	$-0-	$-0-	$-0-
Department of Interior Payroll & Microfiche	256	66	76	20	26	27
FEMA - Acctg System	-0-	-0-	50	30	75	78
Microfilm Services	19	13	23	21	21	22
Timesharing	15	-0-	-0-	-0-	2	2
Training Services	23	-0-	-0-	-0-	-0-	-0-
Software Development	-0-	-0-	60	-0-	-0-	-0-
Registrant Inquiries/ Data Entry	-0-	-0-	83	173	50	104
	$538	$174	$292	$244	$174	$233

OUTSIDE CONTRACTUAL SERVICES

You had previously indicated that $137,000 would be spent in FY 84 on contractual services. It tourned out to be $166,000.

You also anticipated spending $123,000 per year for outside contractual services for FY 85 and FY 86.

Question: What did you actually spend for FY 85?

Answer: Including the lease of ADP equipment, Selective Service spent $233,000 on outside contractual services in FY 1985.

Question: What do you now anticipate spending in FY 86 and FY 87?

Answer: We anticipate spending $115,000 on FY 1896 and $171,000 in FY 1987.

Question: Would you please provide a breakout, for the record, of the types of outside services and the amount spent in FY 84 and FY 85 and anticipated for FY 86 and FY 87 for each type of service? (Please include equipment lease and commercial service breakouts comparable with pages 22 and 23 of your justification.)

Answer:

Type of Service	FY 84	FY 85	FY 86	FY 87
ADP Equipment Lease	$242,000	$39,000	$44,000	$45,000
Contractual Services - Software Development	60,000	-0-	-0-	-0-
Microfilm & Microfiche	23,000	21,000	21,000	22,000
Contract Personnel for Non Technical Tasks	83,000	174,000	50,000	104,000
TOTAL	$408,000	$233,000	$115,000	$171,000

CONSULTANTS AND EXPERTS

Last year, you testified that you spent $25,000 for consultants and experts in FY 84 and did not anticipate such expenditures for FY 85 and FY 86.

Question: Did you expend any funds for these services for FY 85?

Answer: Selective Service did not expend any funds for consultant services in FY 1985.

Question: Do you anticipate any such expenditures in FY 86 or FY 87? If so, how much?

Answer: Selective Service does not anticipate any such expenditures in FY 1986 or FY 1987.

PUBLIC AWARENESS

Last year you indicated that you spent $600,000 for public awareness in FY 84 and expected to spend the same amount in FY 85 and FY 86.

Question: What did you spend in FY 85?

Answer: Selective Service spent $246,000 for public awareness in FY 1985. In FY 85 many talented individuals, NFL football players, television and radio personalities, donated their time to produce television and radio public service announcements for the agency. We took advantage of these generous offers to produce spots which we will use for years to come.

Question: What do you anticipate spending in this area in FY 86 and FY 87?

Answer: Selective Service anticipates spending $379,000 in FY 1986 (after the adjustment due to P.L. 99-177) and $359,000 in FY 1987.

TRAINING

Question: How much are you requesting for training for Board Members, Appeal Board and ASW Civilian Review Boards?

Answer: In the FY 1987 budget justifications, Selective Service has requested $382,000 for the training of Local, Appeal and ASW Civilian Review Board Members.

Question: In the past, you provided the Subcommittee with a statistical summary of the selected board members, including demographic data. Could you please update this information for the record?

Answer:

STATUS REPORT
BOARD MEMBERS
FEBRUARY 10, 1985

APPEAL BOARDS

REGION	REQUIRED	ON BOARD	SHORTAGE/FILL RATE
I	95	95	0
II	130	128	2
III	60	57	3
IV	65	65	0
V	65	65	0
VI	60	60	0
TOTALS	475	470	5 (98.9%)

LOCAL BOARDS

I	2305	2209	96 (95.8%)
II	2245	2159	86 (96.2%)
III	2025	1934	91 (95.9%)
IV	1225	1209	16 (98.7%)
V	1540	1480	60 (96.1%)
VI	1215	1187	28 (97.7%)
TOTAL	10,555	10,178	377 (96.4%)

CIVILIAN REVIEW BOARD

I	120	115	5 (96.6%)
II	80	77	3 (96.3%)
III	110	105	5 (95.5%)
IV	50	43	7 (87.0%)
V	80	69	11 (86.3%)
VI	40	36	4 (90.0%)
TOTAL	480	445	35 (92.7%)

Category	Number	Percentage	Census%
Sex			
Male	8691	78.7	49
Female	2349	21.3	51
Race			
Black	1323	12.0	11.7
AI/AN	113	1.06	0.63
A/PI	96	0.83	1.5
Ethnicity			
Hispanic	634	5.7	4.4

USE OF OTHER DATA SOURCES

Question: In the past, you stated that the Selective Service System was using driver licenses and high school graduation lists in identifying non-registrants.

Would you provide the following information so we can compare your progress over time?

How many states presently have agreed to furnish driver's records?

Have there been any improvements from last year?

What progress is being made in the remaining states and what inducements can you offer for their cooperation?

Answer: Last year we indicated that state drivers' license records were being obtained from 51 States and territories. Our situation is essentially the same this year except that we have started receiving data from the State of Georgia. Although Hawaii and Montana continue to be the only two States which have never furnished us with this data, we have not received any new lists from Connecticut and Nebraska since I last appeared before you.

As I indicated last year, no inducements are offered the States. By providing the data, however, the States and territories help achieve a fairness in the National draft registration system. In addition, by giving this data to Selective Service they are assisting in providing information to their young men about the registration requirement. We would like to have records from all states included in our active compliance program to provide more comprehensive coverage and uniformity in our registration reminder program and active compliance program.

PROSECUTION OF NONREGISTRANTS

Question: You have indicated in previous years that the primary consideration in determining whether or not to initiate enforcement action against individuals that fail to register was "Evidence of a knowing failure to register or evasion or refusal will suffice."

How many individuals failed to register in FY 85?

How many cases did you refer to the Justice Department for prosecution?

Have you changed your criterion on which cases should be referred for prosecution?

Answer: Men born in 1967 constituted the year of birth group required to register in 1985. On February 23, 1986, we estimated that 308,000 men born in 1967 had not yet registered. The compliance rate increases steadily as the young men approach their 20th year. The compliance rate of the men who are draft eligible is estimated to be at 98.7% with an estimated 159,000 nonregistrants born in the six year groups 1961 through 1966.

Our referral of January 24, 1986, to the Department of Justice included 244,535 cases. These included men born in each year of birth from 1960 to 1967 inclusive.

Prior to 1985 cases were referred to the Department of Justice after as few as two letters. During 1985 a change was made so that most cases were not referred until after three letters.

ADDITIONAL POSITIONS

Your budget justification indicated that you are not requesting any additional permanent positions.

Question: Did your request to OMB include any additional positions?

Answer: No, our request to OMB provided for 277 FTE - the same as our budget justification.

Question: Could you please provide, for the record, your actual number of FTE for FY 83 through FY 85 and provide estimates for FY 86 and FY 87? Please include FTE associated with overtime and holiday hours.

Answer:

YEAR	FTE	OVERTIME AND HOLIDAY HOURS
FY 1983	279	6
FY 1984	273	12
FY 1985	274	10
FY 1986	273	5
FY 1986	277	10

FEDERAL HOME LOAN BANK BOARD

STATEMENT OF EDWIN GRAY, CHAIRMAN

ACCOMPANIED BY:
DENNIS PITTMAN, BUDGET OFFICER
FRANCIS PASSARELLI, DIRECTOR, EXAMINATIONS AND SUPERVISION
MARY GRIGSBY, BOARD MEMBER
DONALD HOVDE, BOARD MEMBER
SHANNON FAIRBANKS, EXECUTIVE STAFF DIRECTOR
ANGELO VIGNA, DIRECTOR, FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

OPENING REMARKS

Senator GARN. Next we have the Federal Home Loan Bank Board to testify.

Mr. Gray, it is a pleasure to see you. Your prepared remarks again highlight the difficult challenges facing the Federal Home Loan Bank system.

Your entire statement will be placed in the record, and I would appreciate it if you would summarize it. Since, as you very well know, I chair your authorizing committee, and I am rather involved above my eyebrows in the policy determinations of the Board and all of the financial institutions, I am certainly not going to ask you questions and get into all of the policy areas today. We will limit the questioning to your program requirements. There is no point in rehashing all of the authorizing problems. We will discuss those with that other hat, at another time, on another day.

So please go ahead.

INTRODUCTION OF ASSOCIATES

Mr. GRAY. Thank you very much, Mr. Chairman.

Let me just introduce the people at the table with me. Mr. Dennis Pittman, who is the Budget Director; Mr. Frank Passarelli, the Director of the Office of Examinations and Supervision; my colleagues on both sides, Mary Grigsby and Don Hovde; Shannon Fairbanks, who is the Chief of Staff; and Angelo Vigna, who is the Director of the FSLIC.

SUMMARY STATEMENT

We do appreciate very much the opportunity to respond to your invitation to testify. In summary, because the statement that we have prepared for the subcommittee is lengthy, let me just say that 1985, and as we continue into 1986, have been very challenging periods for the Federal Home Loan Bank Board, needless to say. I believe that a great deal of progress has been made during that period.

A year ago in March, the Bank Board adopted two of the most important regulations ever to be adopted, in my view, by the Federal Home Loan Bank Board. One was the net worth/growth regulation, and the other was the direct investment regulation. I think that we, and various leaders in the Congress, have seen the value of these regulations.

I can tell you that the rate of growth, which was excessive certainly in 1984 in our view, was slowed down tremendously as a result of the net worth/growth regulation. This regulation sought to correlate more closely an insured institution's growth with its net worth. In 1985, in fact, the growth of deposits and liabilities of the industry generally, was only about a third of what it was in 1984, which means that the thrift industry came down to growth levels roughly equivalent to those in the commercial banking system.

DIRECT INVESTMENT REGULATION

Second, with respect to the direct investment regulation, we have been concerned about excessive risk taking by certain institutions, and I believe that the direct investment regulation, along with the net worth/growth regulation, have shown themselves to have dealt with these problems rather remarkably and effectively.

In addition to that, as a result of the encouragement from the members of the subcommittee last year, the Bank Board delegated, under its authority in the Garn-St Germain Act, our field examiners to the Federal Home Loan Banks. Because we did that, we now have, instead of 750 examiners who were earning at the time an average of about $25,000 a year, with the entry level at $14,000, we now have more than 1,000 examiners. We are on our way to 1,250 by the middle of this year and 1,500 by the end of the year. Entry level salaries are at $21,000 rather than $14,000, and the retention rate is far greater than we had before.

Let me just say that there is authority, as you know, in the Garn-St Germain Act, and I would like to read that very quickly, for some of the actions that we have taken. When Congress amended the Federal Home Loan Bank Board Act in 1982, it recognized the Bank Board's need to rely on officers and employees, agents and administrative units of the banks, in carrying out its responsibilities by providing that, and I quote:

> Notwithstanding any other provisions of the law, the Bank Board may, from time to time, make such provision, as it deems appropriate, authorizing the performance by any officer, employee, agent, or administrative unit thereof, of any function of the Board, including any function of the FSLIC.

I would call a function of the board that which is performed for us in the supervision and the examination field by the Federal Home Loan Banks.

This provision in the Garn-St Germain Act has been of great help to us, and it has made possible our ability to more effectively examine and supervise the institutions under our jurisdiction.

There is a listing in my prepared statement, that has been given to the subcommittee, of a number of the other examples of progress that we have been making in our responsibilities over the thrift industry and the Federal Home Loan Bank system.

We think that the progress that we have made has been helpful to the industry. It has been helpful to the American public, and it certainly establishes the kind of threshold that we need as we continue to face the challenges of regulating the thrift industry in the future.

[The statement follows:]

STATEMENT OF EDWIN J. GRAY

Mr. Chairman, Members of the Subcommittee, I appreciate the opportunity to present today the fiscal year ("FY") 1987 budget request and the FY 1986 supplemental budget request of the Federal Home Loan Bank Board ("Bank Board" or "Board"). Our 1987 request is $33,659,000 and provides for a cumulative staff increase of 124 positions during 1986 and 1987 in Board offices funded under these Congressional budget limitations. These staffing increases, 95 positions in 1986 and 29 more positions in 1987, are supported by the Administration and are essential if the Bank Board is to deal with the continuing serious problems of the thrift industry. The Administration is submitting, on our behalf, a $3,429,000 FY 1986 budget supplemental request to fund the 95 additional positions in the current fiscal year.

As an offset to our FY 1986 budget, 4.3% of this agency's "administrative" expenses are being sequestered under the Balanced Budget and Emergency Deficit Control Act, P.L. 99-177 ("Gramm-Rudman-Hollings"). The sequestered amounts are $1,156,000 from the Bank Board's Administrative Expense limitation and $62,000 from the Federal Savings & Loan Insurance Corporation's (FSLIC) Administrative Expense limitation. The resulting adjusted spending limits are $25,721,000 and $1,378,000, respectively. The accounting for these reductions is shown on the opening page of our budget justification material. While these initial reductions may appear relatively small, we have major concerns regarding both this application of Gramm-Rudman-Hollings to expenses financed from non-federal sources and which have no impact upon the deficit and, more importantly, the potential serious impact of such a reduction on the FSLIC and FSLIC-supported activities.

The sequestration of our budgeted funds, while small, will have a very serious impact on the FSLIC's default prevention and liquidation activities. This is because the Bank Board's administrative budget subject to sequestration funds vital support services, such as legal, accounting, data processing, and supervisory management, all integral to FSLIC operations. Moreover, 75% of this administrative budget funds salaries and pay-related benefits, so that even relatively small reductions will force immediate staffing reductions in these critical support areas. This will almost certainly delay resolution of a substantial number of failing financial institutions, resulting ultimately in higher costs to the FSLIC.

Every federal agency head must address the potential of a FY 1987 sequester under Gramm-Rudman-Hollings, notwithstanding the recent decision of a special three judge panel ruling the sequester unconstitutional subject to Supreme Court review. The balanced budget law prescribes a maximum deficit of $144 billion for the upcoming fiscal year. Granting the imprecision of unofficial estimates, projected FY 1987 deficits have ranged from $40 to $80 billion above the maximum. Correspondingly, the potential sequester could range from 18% to 30%. Without a doubt, I can advise you that such a sequester would seriously impair the effectiveness of the Bank Board and incalculably harm the FSLIC.

I. OVERVIEW- FHLBB CONCERNS IN A DEREGULATED ENVIRONMENT

Thrift profitability improved substantially last year. Preliminary information indicates net after-tax income of FSLIC-insured thrifts was about $4.0 billion. This produces a return on assets of 0.40 percent, up from 0.12 percent in 1984, and the highest since 0.67 percent in 1979. Most of the year-to-year improvement in profitability resulted from a rise in net operating income stemming from a decline in cost of funds caused by the reduction in market interest rates. However, net non-operating income also increased, primarily as a result of a rise in profits on asset sales. Despite last year's increase in aggregate industry profitability, however, somewhat more than 15 percent of all FSLIC-insured thrifts were operating at a loss.

As a result of the improvement in profits, sales of stock and of subordinated debentures, and issuance of income capital certificates, the regulatory net worth of thrifts rose to $46.6 billion at the end of 1985, increasing the average regulatory net worth/ assets ratio to 4.36 percent from 3.87 percent a year earlier. Even so, about 22 percent of all FSLIC-insured institutions had a regulatory net worth/assets ratio below 3 percent. Thus, although the industry earned record profits, record insolvencies were suffered. I would like to address the problems we see facing the FSLIC Fund, the constraints that impede our resolution of those problems, and the steps we have taken and intend to take to reduce them.

The FSLIC fund remains under enormous strain and the Bank Board and FSLIC staff resources continue to be stretched severely. At year end 1985 the total insurance reserve amounted to just over $6 billion and the ratio of reserves to members' deposits remained at about 0.72%. Moreover, conventional government staffing limits and pay scales and the new constraints of Gramm-Rudman-Hollings impose severe restrictions upon us and will cause further unnecessary losses to the FSLIC Fund. The unacceptably low ratio of FSLIC reserves to liabilities imposes severe budgetary restraints on the number of cases the FSLIC can resolve because the resolution of a bad asset case almost invariably requires substantial FSLIC financial assistance. Non-bank banks also impose a crippling constraint upon the FSLIC. The existence of this loophole greatly reduces the pool of interested bidders for FSLIC cases and substantially raises the costs to the FSLIC. Finally, the inadequate statutory authority of the Board to deal with some of the problems it faces unnecessarily hampers our enforcement efforts.

The Bank Board has taken action on many fronts to deal with the problems and constraints facing the Bank Board and the FSLIC. We have attacked the problem of staffing limitations by delegating the examination function to the Federal Home Loan Banks. Similarly, the Federal Asset Disposition Association ("FADA") was created to assist FSlIC with the liquidation of its large portfolio of problem assets and overcome its critical staffing shortage. The Board also conferred independent Office status on the former Division of Enforcement within the General Counsel's Office. We believe this reorganization will allow us to react even more quickly and aggressively to halt abusive practices which result in losses to the FSLIC. From a regulatory perspective, there has been a very positive impact from the new regulations regarding net worth, direct investment, and asset classification. The Board is also considering proposal of additional regulations to further strengthen net worth requirements and increasing its sensitivity to asset risk. Regulatory reforms covering acquisition, development, and construction ("ADC") loans are being studied. A possible revision of the liquidity regulations is also being studied. These added reforms could substantially reduce the number of problem institutions in the future.

The Board is also acting vigorously against embedded losses that already exist. I have issued a series of directives requiring immediate written notification to the new Office of Enforcement of any material violations of law, regulations or written agreements entered into with the Bank Board by insured institutions when detected by the supervisory agents in the field. That new Office has a greatly increased staff, and a mandate to be extremely aggressive in bringing such violations to a halt. Also whenever possible, we bring competent management in to manage financially troubled thrifts at the earliest possible juncture. We believe this Management Consignment Program ("MCP") offers real hope for preventing further growth of embedded losses. The Board is also aggressive in making criminal referrals whenever warranted, in bringing suit against the individuals who have caused thrifts to fail, and in seeking judicial orders freezing such persons' assets.

Recapitalization is clearly needed. Accordingly, we have substantially bolstered the resources of the FSLIC fund by imposing a supplementary premium for each of the last four quarters. Although, there was initial opposition by much of the industry, there is now widespread agreement that this action was essential. I look forward to working with Congress in formulating new methods of improving the capitalization of the insurance fund. While our present crisis is bad asset cases, we have not forgotten the scourge of interest rate mismatch of assets and liabilities. The Board has adopted several regulatory initiatives to encourage the industry to monitor and reduce its exposure to interest rate risk--which remains very large. We have been very fortunate that interest rates have fallen substantially. It is essential that the industry take advantage of this opportunity to restructure their portfolios now to minimize such risk in the future.

When I began to warn about these problems I was subjected to sharp criticism. When the Bank Board acted to curtail certain high risk activities the invective directed at us by some quarters of the thrift industry was extraordinary. We perservered and did what we felt was right. Today, I believe there is a strong consensus of the leadership of the industry that we were right to take the actions we did. With your support the Board will be able to continue resolving the problems of the thrift industry.

II. EXAMINATION AND SUPERVISION ACTIVITIES

A. Improvements in the examination and supervisory process and transfer of functions to the Federal Home Loan Banks

The severe financial crisis that has plagued the thrift industry over the past several years has taken its toll on the Bank Board's capacity to examine and supervise the institutions under its jurisdiction. During this time, we frequently have had to use our limited resources to handle only critical situations, rather than to engage in systematic, well-designed examination and supervision aimed at preserving the health of institutions. This situation, if allowed to continue, could destroy our ability to protect the safety and soundness of the thrift industry. Therefore, the Bank Board is taking positive and aggressive action to strengthen its examination and supervisory efforts.

As of July 6, 1985, the Bank Board transferred its field examination function to the Federal Home Loan Banks ("FHLBanks"). This historic move enabled us to pursue with all deliberate speed the building process of a well trained, effective, and efficient field examination force. By December 31, 1985, the number of examiner professionals on the staffs of the FHLBanks was increased from 747 to 1,003, an increase of 34.3 percent. Of this increase, 120 or 46.9 percent, were in the Atlanta, Dallas and San Francisco districts, where many of the most serious industry problems exist. The flexibility afforded by transfer of the examination function to the FHLBanks also has resulted in hiring not only of a substantial number of additional examiners but also in hiring of far better qualified candidates than was previously possible, many have attained advanced degrees and/or professional designations, such as Certified Public Accountant. The FHLBanks have been instructed to continue this increase in examination personnel. We have established an interim target of an additional 250 examiners by June 30, 1986, and expect to have a total of over 1,500 examiners by the end of 1986.

We have also more than doubled our supervisory staffs in the FHLBanks in the last eighteen months. We have issued instructions to continue this increase commensurate with the buildup of the examination staffs. Moreover, in 1985, we provided training to more than double the number of supervisory agents trained in 1984. I am pleased with the progress we are making, but this building process has just begun. More needs to be done, and will be done, to add to the quality and quantity of our examination and supervision efforts.

B. Supervision and Enforcement Actions/Directives

During 1985, the Bank Board issued a series of directives to its supervisory staff at the 12 Federal Home Loan Banks, prescribing that staff take firm corrective action in response to all material violations by insured institutions. I have attached to my testimony a summary of the supervisory directives issued between April 1984 and February 12, 1986. For serious problems that require a stronger response than a supervisory letter or supervisory agreement, the Bank Board directed that requests be made to Washington for formal enforcement action. As I mentioned earlier, as another step in its initiative to strengthen and improve the supervisory and enforcement process, the Bank Board created the Office of Enforcement in November 1985. Previously a Division in the Office of General Counsel, the Enforcement staff was redesignated as a separate Office of the Bank Board in order to expedite its actions on formal enforcement actions and, more importantly, give the enforcement process a higher priority at the agency and within the thrift industry.

This forceful approach to supervision and enforcement significantly increased the number of formal and informal enforcement actions and completed investigations in 1985 and, to date, in 1986. As the FHLBanks continue to increase both their examining and supervisory personnel, the number of requests coming to the Office of Enforcement inevitably will increase as well. Clearly, a significant increase will be required in the number of Enforcement attorneys and support staff, who remain government employees, to handle this growing level of referrals for formal investigations and formal enforcement actions.

III. FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION (THE FSLIC)

A. Condition of the Fund

The primary goal of the FSLIC is to fully guarantee FSLIC-insured deposits, and to do so in a way that bolsters public confidence in America's financial institutions. The FSLIC insurance fund is the major resource applied towards this goal. The fund is the FSLIC's net worth, the amount by which the FSLIC's total assets exceed its total liabilities. At year-end 1985, the FSLIC's net worth, or total insurance reserves, was just over $6.0 billion. The ratio of reserves to insured members' deposits remained steady at about 0.72%. An abbreviated statement is shown below:

($ billions)	12/31/85	12/31/84
Total Assets	$10.48	$ 8.94
Total Liabilities	4.44	3.33
Total Reserves	$ 6.04	$ 5.61
Member deposits	$843.3	$784.7

Reserve ratio	0.72%	0.71%

FSLIC's total income in 1985 was $2.3 billion, increasing from $1.3 billion last year. The increase is almost exclusively attributed to additional premiums assessed by the Bank Board in 1985. Four quarterly special assessments of 1/32 of 1% of member deposits were declared, gathering the full additional 1/8 of 1% of deposits premium authorized under current law.

It is worth mentioning again at this time that the source of all FSLIC income is member premiums and the interest earned from FSLIC's investments in U.S. Treasury securities. The FSLIC does not use tax dollars. Its costs are totally borne by FSLIC insured institutions. The FSLIC is in essence, a thrift-funded, group insurance plan.

The FSLIC has the duty to deal with problem institutions in the least costly manner possible while fully protecting insured depositors. In performing this duty during 1985, FSLIC absorbed over $1.7 billion in case-related losses, but spent only $53.2 million for general overhead expenses. An additional $158.6 million was consumed in payment of interest to insured institutions holding FSLIC notes. Largely because of the Board's early action regarding the additional premium assessments, income kept ahead of expenses, and the FSLIC's net operating income in 1985 was a positive $396.5 million.

B. FSLIC Case Activity.

During 1985, the FSLIC implemented a total of 56 case actions, resolving 33, and placing 23 cases in the Management Consignment Program (MCP). The 56 cases involved assets of $22.2 billion, with costs to FSLIC of about $1.7 billion. The 1985 actions are summarized below:

Action	Cases	Assets ($millions)
Liquidations		
Cash-backed transfer of accounts	5	
Asset-backed transfer of accounts	3	
Cash paid to depositors	2	
Total liquidations	10	$ 2,157.8
Mergers	14	2,351.6
Acquisition by holding co's.	3	802.7
Acquisition by investor groups	5	436.7
Rehabilitation	1	752.7
Management Consignment Program	23	15,735.0

Totals	56	$22,236.5

In addition to the cases acted upon in 1985, the FSLIC's remaining caseload consists of 60 supervisory cases with assets of $11.8 billion and 2 "Phoenix" controlled associations with assets of $10.7 billion. The FSLIC is actively pursuing final resolutions for these cases and the 23 institutions in the Management Consignment Program.

C. Management Consignment Program.

The Management Consignment Program is a new tool used by the Bank Board for containment, evaluation, and possible rehabilitation of problem institutions. It is also meant to minimize the FSLIC's eventual solution costs. The program has been most useful thus far in handling large, troubled institutions whose bad asset problems have surfaced but not been fully defined. Assets and liabilities normally are passed through a receivership to a federal mutual structure to keep them in an operating entity. Day-to-day supervision is delegated to the Principal Supervisory Agent (PSA) in the relevant FHLbank district. The MCP entity operates under the watchful care of a highly qualified management group hired by the new institution with the PSA's approval, and with a board of directors approved by the Bank Board.

The principal advantage of the MCP is that it permits rapid supervisory action without the necessity of a final FSLIC case resolution (sale or liquidation), terminating behavior that brought the institution into insolvency while allowing time for a measured unwinding of affairs and close examination of the assets. Such a program also appears to stabilize the deposit outflow at each institution. Each MCP participant is in a holding pattern, with expert management imported from successful members of the thrift industry attempting to unravel its affairs and set it on a steady course. MCP institutions are usually not immediately marketable largely because of unknown asset quality or litigation in progress. Orderly marketing or rehabilitation eliminates more costly liquidation action and the entire process conserves the FSLIC's resources.

D. Federal Asset Disposition Association.

A significant initiative in 1985 was the formation in November of the Federal Asset Disposition Association (FADA), known in press reports as the "406 Corporation." FADA is a wholly-owned subsidiary of the FSLIC, and will engage in disposition and/or management of assets received by the FSLIC in case resolution actions. Only last month, FADA's Board of Directors selected a highly qualified Chief Executive Officer who is now gathering the staff necessary to begin FADA's operations.

There has been much speculation and misinformation about the Bank Board's plan for FADA. Let me set the record straight. Simply put, FADA will be a nonexclusive contractor for management and disposition of FSLIC assets. Whereas that function is now hampered by restraints on staffing and resource allocation, centralization within FADA should dramatically change this situation. FADA will be able to rapidly match hired talent to specific asset management problems, maximizing and accelerating the return of cash to the FSLIC. FADA is but another refinement in fulfilling the Bank Board obligation to protect FSLIC resources by operating in an efficient and cost-effective manner, prudently applying premium dollars to FSLIC problems.

E. Impact of Tax Legislation on FSLIC Costs.

The House of Representatives recently passed the Tax Reform Act of 1985 (the "Act"). The bill is now being considered by the Senate. The Act would repeal the special rules enacted in 1981 which generally permit tax-free treatment for acquisition of an insolvent thrift. Repeal of these rules could seriously affect the economics of acquiring troubled thrifts and significantly increase FSLIC costs in assisting such acquisitions. In addition, the present law providing for the tax-free treatment of FSLIC assistance payments would be repealed. This also would translate into a much greater cost to the FSLIC in resolving cases by merger or acquisition, which has generally proven to be much more cost-effective than liquidation. Given the enormous strains on the FSLIC Fund, we believe these portions of the Act are "pennywise and pound foolish". It is critical to eliminate them entirely. Alternatively, at the very least, any final bill should preserve the current rules until 1991, as the original Treasury Department tax plan requested. I have expressed these concerns to the appropriate Committees, and will continue to urge preservation of the current tax treatment of these thrift problem areas to protect the FSLIC's resources.

F. FSLIC Staffing.

I am pleased to report that the OMB has approved the requested FSLIC staff increase of 139 positions for fiscal year 1986, and to the extent these positions are funded by FSLIC's non-administrative funds, the FSLIC is in the process of hiring to its new staffing level at this time. We satisfactorily demonstrated to OMB our critical need for the increase, and I want to confirm that the need will continue. We expect to request further increases in FY 1987 as warranted by the projected caseload and the need to properly execute FSLIC's management responsibilities. Even with increased staffing levels, FSLIC remains severely weakened by the lack of experienced middle managers and by the lack of adequate Bank Board staff, who provide essential support to the FSLIC. As you know, long ago the Bank Board and the FSLIC consolidated support services in an effort to provide greater efficiency and economy to our operations. As a result, the FSLIC relies upon Bank Board offices for much of its staff and facilities, including legal, accounting, data processing, and other support. This is another reason why our supplemental budget request is so important to the FSLIC as well as to the Bank Board. In addition, the FSLIC has recently lost many of its most experienced and competent employees to higher paying positions in the private sector. While it is possible to partly compensate for lack of experience with numbers, the gap cannot be completely filled in that way. We will need continued support of the OMB, the Administration and the Congress as we strive to meet the enormous and unprecedented challenges that lie ahead.

IV. OVERALL BOARD COMPENSATION AND BENEFITS PROGRAM

Earlier in this testimony, I mentioned the recruitment and retention problems encountered by the Office of Examinations and Supervision and the Federal Savings and Loan Insurance Corporation. These problems are not limited to those offices, but in fact hamper our staffing capability throughout the Bank Board. Although we have come to expect these disadvantages in competing with the private sector, we are also suffering comparable disadvantages with respect to other financial regulatory agencies.

The Federal Reserve Board (FRB), the Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC) have compensation and benefit flexibility beyond the reach of the Bank Board. That flexibility enables these agencies to offer an employment package comparable to that found in many private sector enterprises. As a result, the Bank Board has been at a severe double disadvantage in competing for the badly needed top talent.

The key to this flexibility is exemption from the Classification Act, an exemption rooted in the enabling legislation of these other agencies. Although they generally follow the salary grades and pay ranges of the Classification Act (GS-1-15), the FRB, FDIC, and OCC have freedom to fix compensation of their employees and provide salary enhancements and benefit programs as they deem appropriate. The Bank Board is restricted in this regard by a previous interpretation of the Office of Personnel Management ("OPM") that our agency is subject to the Classification Act.

In terms of basic compensation, the Bank Board can routinely offer an applicant only the minimum salary at any grade level. The other financial regulatory agencies may exceed the minimum without first obtaining special approval. In setting the grade limits of particular occupations, the Bank Board is restricted by classification standards published by OPM (in many cases 15-20 years ago) while the other agencies can determine the value of their occupations according to current industry conditions. Further, in promoting individual employees, the Bank Board is restricted to narrowly defined increases rather than levels commensurate with employees' contributions.

The Bank Board suffers further disadvantages with regard to compensation enhancements. The FDIC, for example, annually grants each of its employees a regional pay differential over and above any Government-wide cost of living adjustment ("COLA"). The differential varies from year to year and from one geographic region to another, but all FDIC employees in 1985 received between approximately 2%-10% in addition to their base compensation. In 1986, while all Federal employees (including Bank Board staff) are faced with no COLAs, FDIC employees are receiving an increase of between 7%-20% in addition to their base pay.

Another disparity exists regarding bonuses. The FRB can grant a bonus to all of its officers each year for superior performance, and the OCC has a salary increment between 2% and 14% of basic pay. In contrast, OPM regulations governing Senior Executive Service (SES) performance bonuses restrict cash awards to 30%-35% of the Bank Board's career SES staff. Under a liberal OPM interpretation of these regulations in 1985, we were permitted to grant bonuses to only 3 of our career SES employees. Similarly, Bank Board mid-level managers and supervisors were restricted to performance awards of 2%-3% of basic pay given the limitations imposed by OPM regulations on employees subject to merit pay regulations.

In addition to the disparity between the Bank Board and the FRB, FDIC, and OCC in direct compensation and salary enhancements, these agencies also provide benefit programs far more liberal than standard Government benefit programs available at the Bank Board. Employees in these agencies can choose life insurance and health programs at little or no cost. Among those agencies, the highest cost for life insurance is 7 cents biweekly for $1,000 of basic coverage, whereas Bank Board employees pay 20 cents biweekly for $1,000 of basic coverage. The cost disparity in health coverage is even more striking. The highest cost for Blue Cross-Blue Shield maximum family coverage among these other agencies is $20.64 biweekly (FRB), where parallel coverage for Government Blue Cross-Blue Shield is $66.13 biweekly.

In addition, both the FRB and the FDIC offer employer-subsidized savings instruments for their employees. The FRB has both a thrift plan and a 401K plan in which the FRB will match 60 cents for every dollar contributed by an employee into these plans (up to a total of 6%). The FDIC provides a 401K plan in which it matches dollar for dollar employee contributions up to a total of 5%. The OCC has developed a thrift plan, but is awaiting final approval from the Treasury Department. The Bank Board, like other Federal agencies, has operated under the assumption that it may not offer such plans, although our Office of General Counsel is reexamining this question.

In view of these disparities, the Bank Board cannot realistically expect to compete successfully for the best talent in the marketplace, even when the competition is limited to other financial regulatory agencies. Moreover, even if we succeed in hiring the kind of candidates we need, the chances of retaining them are not high. Our overall turnover rate for the last two fiscal years was 27.2% and 20.2%, respectively. The latest available Government-wide turnover rates were 11.4% for FY 83 and 12.3% for FY 84. The impact of our turnover rate has been felt throughout the Board but loss of staff at the GS-13 level and above has been particularly critical. During the last three fiscal years, separations at the GS-13 level and above represented the following percentages of our total turnover: FY 83--51%, FY 84--24.9%, and FY--85 32%. In FY 85, loss of senior staff in three major policy offices was especially striking. The percentage of separations at the GS-13 level and above was 52% in the Office of the General Counsel, 39% in the Office of Examinations and Supervision, and 33% in the Federal Savings and Loan Insurance Corporation. While many of these employees are finding more lucrative positions in the private sector, some are leaving for comparable jobs with higher compensation at our sister financial regulatory agencies.

I intend to meet with the Director of the Office of Personnel Management, requesting an administrative determination exempting the Bank Board from the Classification Act and related compensation regulations. I have enlisted the support of the Office of Management and Budget in this effort, and I am awaiting what I hope will be a favorable response. Hopefully, the Board will not feel forced to have to request legislation to ensure hiring, compensation, and benefit parity between the Board and the other financial regulatory agencies.

V. REGULATORY DEVELOPMENTS

Last year I described several regulatory initiatives the Board had adopted to relieve strains on the stability of the industry and the FSLIC resulting from deregulation, undercapitalization and asset quality problems. Today I am pleased to give you a progress report on the impact of our far-reaching approach to slow high risk capital growth. In addition, during the past year the Board has undertaken a series of actions to modernize and bring greater stability to the industry through a wide array of regulatory efforts (including the FADA which I discussed earlier). I will briefly describe some of the Board's most significant regulatory achievements from our 1985 program. Later in my testimony I will also discuss those initiatives specifically designed to promote the infusion of capital into the industry.

A. Impact of Capital Growth Regulations

In 1984, the thrift industry was growing at nearly 20 percent a year; which meant it would double in size in four years. By contrast, commercial banks deposits were growing at well under 10 percent a year. Institutions experiencing rapid growth tended to make far more high risk investments when compared to the industry as a whole. In 1984, construction lending, historically associated with far greater credit risk than mortgage lending, accounted for less than six percent of the assets of institutions generally, but almost 25 percent of assets of those institutions which doubled in one year or less. ADC loans, the lending category with the highest level of credit risk, accounted for approximately 2 percent of thrift institutions' assets on average, but almost 13 percent for institutions growing rapidly. Direct investment in equity securities, real estate, and service corporations accounted for only about two percent of total institution assets, but over 10 percent for rapidly growing state-chartered institutions in California and Texas, the states with the most liberal asset limitations. Throughout 1984, direct investments by the industry increased at close to a 100 percent annual rate. At that rate of increase, the level of direct investments would have almost quadrupled in two years and increased sixteen-fold in four years.

Early last year the Bank Board took two major regulatory actions to reduce the risk exposure of the FSLIC. One amended the Board's net worth requirement to require higher net worth levels for institutions growing at rapid rates, to include an amount of net worth reflecting direct investment and to gradually phrase out the use of the five-year averaging and 20-year phase-in techniques previously permitted. The second adopted the direct investment rule, which requires prior supervisory approval for investments in equity securities, real estate and service corporations which exceed a certain threshhold level of an institution's assets.

The net worth regulation had a significant effect on industry operations last year. Overall growth in liabilities slowed from 19.4 percent in 1984 to 7.9 percent in 1985, as managers conformed to the new net worth requirements. Moreover, growth rates were reduced most sharply by institutions with low net worth ratios. During the first three quarters of last year, for example, growth in liabilities of institutions with net worth ratios of less than 1 percent was at an annualized rate of -4 percent, whereas it had been 21 percent in the comparable year-earlier period. The growth rate for firms with net worth ratios in the 1-3 percent range dropped from 26 to 4 percent. On the other hand, the growth rate for thrifts with net worth ratios above 5 percent dropped only from 13 to 11 percent. With regard to the requirement for added net worth based on direct investment, during the third quarter of last year, 67 firms were required to increase their net worth by an aggregate of $207 million because of the new requirement. The Board anticipates continued significant improvement in the industry as the result of both regulations, as the deceleration of higher risk capital growth continues.

B. Classification of Assets

On December 9, 1985, the Board adopted a final regulation on classification of assets. The prior classification system did not adequately identify credit weakness in commercial loans, where payment schedules and other indicia of "current" status are often of a different nature than non-commercial loans. The regulation applies to all loans except consumer loans and one-to-four family, owner-occupied mortgages.

Through this rule, the examination and supervision process may now categorize problem assets as "substandard," "doubtful" or "loss". When an examiner identifies an asset with enumerated demonstrable weaknesses, he or she may recommend that the asset be classified as "doubtful" or "loss" and the supervisory agent may specify a loss reserve. Based on the PSA's determination, such problem assets may ultimately require establishment of a specific reserve of 50 percent (for "doubtful" assets) and 100 percent (for "loss" assets). These reserves are drawn from the institution's net-worth accounts and thus lower the amount of an institution's actual regulatory net worth. Problem assets classified as "substandard" will be treated as scheduled items, and the institution's minimum net worth requrement will be increased to reflect 20 percent of such loans.

The classification of assets regulation enhances effective supervision by providing examiners the means to identify and address credit weaknesses in commercial loans; it closely parallels the classification method long used by the federal banking agencies.

C. Acquisition, Development and Construction Loans

After adopting the direct investment rule, the Bank Board moved to differentiate more accurately for reporting purposes between acquisition, development, and construction loans and direct equity investments, since many direct investments have been accounted for as ADC loans. Poorly underwritten loans for construction and development represent one of the major catalysts of FSLIC problems. The portfolios of most of our problem FSLIC cases are strewn with direct investments, often camouflaged as ADC loans gone sour. In reviewing supervisory cases I frequently see that many of our troubled major loans contain virtually no equity from the builder or developer. The only equity provided, and thus the only risk incurred, comes from the insured institution.

The industry standard loan-to-value ratio of 20 percent equity for the typical home loan stands in sharp contrast to the lack of equity participation from builders and developers. The disparity is even more disturbing considering that the underlying collateral in the homeowner loan is relatively liquid and the debt service is based on the homeowner's wages, as opposed to the illiquid and speculative nature of the ADC loans.

Accordingly, in 1985 the Board adopted a statement of accounting policy notifying the public that insured institutions are expected to apply standards of the American Institute of Certified Public Accountants which describe factors to be considered when determining whether a transaction characterized as an ADC loan is, in substance, a real estate investment or a joint venture. Moreover, the Board is currently considering the suggestion of our supervisory agents and others that we establish loan-to-value limits on ADC loans by regulation.

D. Acquisition of Control

During 1985, the Board undertook a major regulatory initiative to review its regulations under the Change in Savings and Loan Control Act ("Control Act") and the Savings and Loan Holding Company Act ("Holding Company Act"). Some of the major objectives in this review were to modify the regulations to (1) eliminate overlap, provide consistent definitions, and clarify the types of acquisitions covered by the relevant statutes; (2) define what constitutes acquisition of control and when an acquiring group is acting "in concert"; and (3) outline factors that would disqualify an entity from gaining control of an institution, thereby improving the FSLIC's ability to prevent dishonest or unqualified acquirers from gaining control of insured institutions.

The new acquisition of control regulation enhances the Board's ability to enforce the underlying statutes. The Board will now be provided with more information concerning potential acquirors. In addition, the regulation will put prospective acquirors on notice of factors that would raise concerns about their qualifications to acquire control of an insured institution. These factors should be a useful tool for the Board to oversee the acquisitions process so that changes in control will not have a detrimental effect on insured institutions, their depositors, and ultimately the FSLIC. During 1986 the Board expects to undertake a substantial effort to develop procedures to assure that the new rules are implemented on a thorough, consistent and expeditious basis.

E. Interstate Branching and Acquisition

The Board has proposed and published for comment two regulatory amendments affecting interstate branching by federal savings and loan associations. First, a limited regulation would encourage competition in the District of Columbia and contiguous states and improve the competitive position of federal associations based there by (1) permitting federal associations based in the District to branch in either Virginia or Maryland, but not both, and (2) permitting a federal association based in Virginia or Maryland to branch within the District.

The second regulatory proposal is more far-reaching, affecting both branching and acquisitions. It would provide, with respect to branching across state lines, general parity for a federal association with state-chartered thrift institutions of the state in which the federal association's home office is located. Accordingly, a federal association located in a state granting "regional compact" or "reciprocal" branching rights to its thrift institutions could exercise the same rights as a state association. A federal association in a holding company structure could exercise such "regional compact" or "reciprocal" rights, but only if no other FSLIC-insured institution within that structure possessed or exercised rights of this kind.

The general proposal would also break new ground in branching associated with acquisitions of failing FSLIC-insured institutions. The present regulation allows a federal association to branch in a state other than its own home office state if it acquires a failing FSLIC-insured institution in that other state. The proposal, however, would also permit, in selected FSLIC cases, "regional" branching rights to be obtained. A Federal association acquiring a failing institution could be permitted to branch within a region including as many as three states in addition to the state of the target institution or within a region defined by state laws on "regional compacts". The proposal should not be read as signalling a move by the Board toward unrestricted branching on a national or broad scale, even in supervisory cases. The Board is seeking to act with responsibility and moderation in an area in which some elements, such as "non-bank banks", now appear to be out of control, at least until Congress acts. In normal circumstances, the Board seeks to preserve parity between federal and state associations in branching. However, in the extraordinary circumstances of FSLIC rescue operations, the Board's primary goal is to reduce costs that failing institutions impose upon the FSLIC.

VI. LEGISLATIVE INITIATIVES

A. Bank Board Legislative Agenda

In 1982, The Garn-St Germain Act gave the thrift industry new and necessary flexibility to compete effectively in an emerging and fiercely competitive financial services environment. That Act provided federally-chartered thrifts with limited commercial lending and commercial real estate lending powers to enable them to shorten some of the asset maturities on their balance sheets and provide additional avenues of profitability at a time when most of their assets were in long-term, fixed-rate mortgages which were yielding less than their cost of money. The Garn-St Germain Act also established a tiered structure by which the FSLIC could alleviate pressures on the fund by rewarding interstate operating rights to any acquirors which chose through a bidding process to help lessen the cost of assistance provided by the FSLIC insurance fund to facilitate acquisitions and mergers of failing thrifts with healthy institutions.

Unfortunately, some confusion and misunderstanding about what Congress intended when it passed the Garn-St Germain Act persists. Specifically, several state legislatures have exceeded the confines of the activities that Congress deemed suitable for federally-chartered savings institutions to engage in all types of "entrepreneurial" endeavors, without protecting the federal insurance fund from the increased risk or providing adequate reforms in state insurance examination. We have asked Congress to examine closely the apparently unintended results of thrift deregulation which goes far beyond the intent of the Garn-St Germain Act.

S. 759 and S. 1167 and H.R. 1680 and H.R. 2444, companion bills introduced in 1985 at the request of the Board, have contained our major legislative goals for reform of the current structure for federally insured depository institutions. Currently, the Board is preparing an updated and refined proposal for submission to Congress.

First, the Board supports reform of the current flat-rate deposit premium structure. We have proposed to the Congress the best and most practical alternative plan we could devise to better price the risk of loss to the FSLIC for activities in which institutions choose to engage. As currently structured, FSLIC insurance coverage creates two perverse incentives for excessive risk-taking. Deposit insurance protection becomes an external substitute to the equity or risk capital of thrift institutions, creating a "moral hazard" in insurance terminology. When the financial risk arising from any course of action is shifted in whole or in part to another economic entity such as the FSLIC, the incentives to manage and control the risk are correspondingly reduced, giving rise to distortions in the market. The other perverse incentive results from the grant to thrifts by some states of investment powers far exceeding those available to federally-chartered institutions, requiring the FSLIC to underwrite a diversity and magnitude of risks never contemplated when the fund was created, and to underwrite it at the same price for all. As a result, the current structure offers an enormous incentive to troubled institutions to take "all-or-nothing" gambles at the FSLIC's expense.

The concept advanced by the Board in our legislative agenda for risk-related premiums would establish groupings of activities based on risk of loss, and subject them to appropriate risk premium pricing. Supplemental premium charges would be set in advance for each type of asset-based activity with higher charges for riskier activities and for institutions with the lowest net worth. Risk categories would be reviewed based on a revised quarterly reporting system designed to capture data for assets that exceed the risk covered by current insurance premiums. In 1986, once again, the initiative for a risk-based insurance plan will be part of the Board's legislative submission. As I mentioned in my testimony before the Senate Banking Committee on July 25, 1985, risk-based capital approaches to underwrite the risk of loss to the FSLIC also have merit and we are not at all adverse to such alternative approaches if the Congress deems them more appropriate.

The second prong of our legislative agenda would provide the Board with a wider array of strengthened enforcement tools to monitor risk-taking and avert substantial losses to the FSLIC fund by taking supervisory action before unsound practices have forced an institution into insolvency. Our proposal deals specifically with statutory language that has made expeditious enforcement action difficult in the past, and would grant new authority to halt new lending or other activities when there is a failure to maintain adequate books and records. The bills also strengthen our enforcement options by expanding the classes of affiliated persons and companies subject to the Bank Board's cease-and-desist and removal prohibition authority. When compared to the total number of insured institutions supervised by the Bank Board, the number that face formal enforcement actions each year is small, but the impact of out-dated statutes that hinder effective action in such cases is major, compelling us to seek legislative resolution.

Third, in order to preserve the basic home lending focus in the thrift regulatory structure, S. 1167 and H.R. 2444 would limit the activities of any FSLIC-insured institution to the following activities: (1) mortgage loans and other activities authorized for federal savings and loan associations; (2) business activities which multiple savings and loan holding companies may engage in under the National Housing Act and regulations of the FSLIC; and (3) such other services as the FSLIC may approve as a proper incident to the operation of insured institutions and not detrimental to the interests of savings accountholders.

Fourth, in our forthcoming submission, as in our 1985 bill, the Board will seek authority to regulate holding companies and FSLIC-insured institutions engaging in activities of an underwriter or market maker in equity securities or debt securities other than those secured by interests in real estate or that are eligible to be underwritten by national banks.

Fifth, the Board submission would establish a "qualified thrift lender" asset-composition test requiring a threshold percentage of assets in specific housing and housing-related investments and certain liquid assets, such as investments in mortgage-related securities. This asset composition test would create a benchmark for thrift eligibility for ownership by diversified companies, access to the Federal Home Loan Bank System advances, access by state-chartered thrifts to FSLIC deposit insurance, eligibility of federal associations for increased service corporation investment, and eligibility of holding companies for activities permitted unitary savings and loan holding companies.

Finally, the Board's 1986 legislative proposal will again seek to enhance the ability of the FSLIC to carry out its receivership and assistance duties more efficiently.

B. Non-bank Bank Loophole

The Board has consistantly supported eliminating the "non-bank bank" loophole, the gap in federal banking law through which banking institutions avoid the geographic and prudential safeguards of bank holding company laws by either accepting consumer deposits or making commercial loans, but not doing both. The loophole threatens the FSLIC's ability to use effectively its statutory authority to reward acquirers of failing thrifts with interstate franchise rights through the use of a bidding procedure. Congress enacted this reward authority as part of the Garn-St Germain Act to increase the FSLIC's flexibility to respond to supervisory problems and better husband its resources. Such flexibility for the FSLIC is a national priority that is more important today than ever before. As I indicated earlier in my testimony, the Board has, by our recent interstate branching proposals enhanced that flexibility in a careful, balanced manner.

Through uncontrolled "loophole" development, the non-bank bank phenomenon has virtually eliminated almost all incentives for banks and bank holding companies to obtain interstate rights, or for other corporations to acquire a depository institution by acquiring a weakened thrift. While it is impossible to know precisely what effect this loophole is having on the FSLIC's ability to resolve severe thrift problem cases, former potential bidders that were previously willing to negotiate seriously for inter-state operating rights have largely disappeared.

As recently as last month, the Supreme Court issued a long-awaited decision that returned the non-bank bank debate to Congress, where closing the loophole had been a legislative priority until court challenges had shifted the battle arena. In the Dimension case, by a vote of 8-0, the Court ruled that the Federal Reserve Board lacks authority to regulate or restrict non-bank banks. The decision has rejuvenated non-bank bank activity and, concomitantly, impaired the flexibility of the FSLIC. Although the Supreme Court confined its ruling to a finding that the Federal Reserve Board exceeded its rulemaking power, the Court offered a pointed invitation to Congress to close the loophole, perfect its statute, and regulate activities that are the functional equivalent of banking. Accordingly, the Board urges enactment of legislation to close the non-bank bank loophole as soon as possible.

VII. STATE OF THE THRIFT INDUSTRY

A. Statistical Overview of 1985

The substantial further decline in market interest rates last year and the generally wide spreads between yields on short-term and long-term debt instruments provided a generally favorable operating environment for the thrift industry. Most of the industry took advantage of this opportunity to restructure their asset-liability portfolios to reduce interest rate risk and improve profitability. A significant minority continued to incur large operating losses, however, and a much smaller minority encountered serious problems because of unsound lending and investment practices and ineffective or inappropriate portfolio restructuring.

Industry growth slowed sharply last year from the unsustainable and unsound pace of 1984, in part in response to the earlier-discussed revision to the Bank Board's net worth regulation. As stated earlier, liability growth in the aggregate slowed to 7.9 percent, from 19.4 percent in 1984, which had been the most rapid in nearly thirty years. Moreover, the reduced growth was concentrated in liabilities of a less desirable type. Balances in large denomination certificates, which tend to be more volatile and costly than retail deposit accounts, actually declined last year, and the reduction in net new borrowing was primarily in short-term reverse repurchase agreements.

Despite reduced liability growth last year, thrifts were able to increase their gross mortgage lending activity by 8 percent to $196 billion, and continued to be the largest source of home mortgage loans, funding additional lending activity by increased sales of mortgages in the secondary market and reduced acquisitions of security investments. The adjustable rate mortgage ("ARM") share of conventional home mortgage loans made by thrifts declined to 54 percent last year from 68 percent in 1984, as the drop in mortgage interest rates made fixed-rate loans more attractive to consumers. The 1985 proportion, however, was higher than the 42 percent ARM share in 1983. Moreover, even with reduction in ARM lending by thrifts last year they were able to substantially increase the proportion of ARM and balloon loans in their mortgage portfolios from 33 percent at yearend 1984 to 39 percent last September, which is the most recent data available. This, of course, reflected repayments and sales of fixed-rate loans, as well as the relative share of ARMs in new lending. The increase in ARM holdings, hedging and other asset/ liability changes made by management reduced further the interest rate risk assumed by the industry last year. The ratio of the one-year cumulative hedged gap to total asset dropped from -35 percent at the end of 1984 to -28 percent last September.

B. Capital Enhancement Tools

1. Mutual to stock conversion

The Board gives high priority to administration of the mutual-to-stock conversion program under which FSLIC-insured thrifts may convert from the mutual to stock form of ownership. Mutual-to-stock conversions have proven to be a unique and extremely effective means of infusing needed capital into the thrift industry, and the capital raised through conversions now equals approximately 12% of the aggregate net worth of the entire industry. I have attached to my testimony a table depiciting the number of applications for conversions filed, approved and completed, for each year since 1972. The last column reflects the amount of capital raised by the converting associations.

Although the Bank Board adopted regulations to govern its mutual-to-stock conversion program in 1974, the Board continually has revised these regulations to meet both its goals and the industry's needs by providing substantial flexibility to the conversion process, and greatly expanding the industry's potential capital sources.

During 1985, the Board adopted certain amendments to the conversion regulations which streamlined the conversion process in significant areas. First, while affording suitable recognition of the rights of mutual accountholders, the Board adopted amendments to its regulations regarding the conversion proxy solicitation process to reduce the difficulties and minimize the substantial expense institutions encountered in obtaining the required 51% vote of its members in favor of conversion. Second, the Board adopted amendments to the modified conversion regulations that limited the subscription rights of accountholders where the converting institution has little or no net worth and clarified and simplified other aspects of the rules.

In 1985, the Board also proposed amendments to regulations governing voluntary supervisory conversion and modified conversions of mutual insured institutions to stock form. The purpose of the proposed amendments is to clarify several of the policies and interpretations of the Board, to expedite the processing of voluntary supervisory conversion and modified conversion applications, and facilitate the voluntary supervisory conversion procedures and encourage their use by insured institutions as capital-raising tools. The Board encourages the use of the voluntary supervisory conversion procedure as a means of capitalizing and rehabilitating insolvent and financially troubled insured institutions.

In addition, the Board proposed a statement of policy regarding multiple-step stock conversion, where an institution undertakes certain transactions related to a stock conversion which would occur subsequent to a loss of eligibility for FSLIC insurance of accounts. The proposed statement of policy would identify the regulatory provisions that the Board deems applicable to such transactions and the circumstances in which they apply. During 1986, the Board will undertake a comprehensive review of its current conversion regulations and seek to further expand the conversion program to allow a larger number of institutions to participate.

2. Finance Subsidiaries

In December 1985, the Board adopted a final rule amending its regulations pertaining to the establishment and operation of finance subsidiaries by Federal associations. Through this rule the Board permits Federal associations to issue securities through wholly-owned finance subsidiaries and collateralize those securities with assets or liabilities transferred from the parent association. While the amendments provide some additional flexibility for associations using such subsidiaries, they also reflect the Board's commitment to ensure adequate capital for the industry and the monitoring of interest-rate risk exposure. The amendments thus modified the relationship between parent and finance subsidiary by requiring all FSLIC-insured institutions to include in their computation of net-worth requirements the net proceeds of certain securities issuances through their finance subsidiaries.

The sole purpose of these finance subsidiaries is to issue securities that the parent association is or could be authorized to issue, and to remit the proceeds to its parent association. Finance subsidiaries are valuable tools of capital enhancement. As distinct corporate entities they provide a less expensive means of raising capital than by direct securities issuance of the parent associations. Through the changes made by the Board in 1985 we hope to facilitate the use of finance subsidiaries in a safe and sound manner, thereby providing institutions another flexible mechanism by which to operate effectively.

3. Developments at the Federal Home Loan Mortgage Corporation (Freddie Mac)

Freddie Mac's success as a pathfinder in the secondary mortgage market continued through 1985. The corporation pioneered in tapping new capital markets that resulted in additional mortgage funds for American's home buying public. The corporation also significantly refined and developed Freddie Mac's product line to further increase the flow of mortgage funds and provide thrifts with important new restructuring tools.

1985 saw the introduction to the European marketplace by Feddie Mac of the first pass-through security exclusively backed by newly originated multifamily mortgages. The $100 million European sale of the multifamily mortgage-backed security, more commonly known as a Mortgage Participation Certificate or PC, increased the source of funds available to develop and maintain critically needed rental housing in the U.S. Introduction of the multifamily PC also represents the first time a mortgage pass-through security was sold exclusively to international investors. The commitment volume for the multifamily Plan B mortgages backing these securities increased 467 percent from 1984 to 1985 while the purchase volume increased by 326 percent.

Freddie Mac followed the multifamily PC sale with a foreign-targeted sale of $350 million in Collateralized Mortgage Obligations (CMOs) backed by single-family loans. This was the first international CMO offering, representing Freddie Mac's commitment to finding new ways to tap capital markets and providing additional mortgage credit to American's home buying public.

Freddie Mac issued the first CMO to the marketplace in 1983. It was hailed as a major innovation and called in the financial press "mortgages by the slice." Since then, the CMO has been successfully replicated by others in the marketplace and has provided another restructuring tool for thrifts, as well as attracted new investors and capital to mortgage finance. Over 80 percent of the CMOs issued since Freddie Mac's introduction represent issuances by others.

In 1984, Freddie Mac recognized the increasing popularity of the 15-year mortgage when it introduced the first PC exclusively backed by these mortgages. 1985 saw tremendous growth in the 15-year mortgage market with Freddie Mac's commitment volume increasing by 614 percent and purchase volume by 672 percent since 1984, representing about one in every four mortgages purchased by Freddie Mac during the year. Over $6 billion in 15-year mortgage-backed securities have been issued since its introduction to the end of the 1985.

1985 also witnessed the introduction of Freddie Mac's rate-capped ARM purchase programs. While these programs got off to a relatively slow start in the first half of the year, commitment and purchase volume increased significantly during the last quarter of 1985. This increase was mainly due to several refinements in the program, making it more market driven. Freddie Mac went to a monthly as opposed to quarterly change in the program parameters for the 5/2 rate capped ARM program (2 percent annual interest rate cap and approximately 5 percent point life-of-loan cap), thus allowing its required net yield and life-of-loan ceiling rate to be more responsive to market interest rate changes. Also, a high margin variant of the 5/2 program was introduced which generated higher prices for seller/services and reduced the up-front points required of borrowers. These changes were reflected in a doubling of monthly commitment and purchase volume in the last two months of the year.

Following its tradition of successful product innovation, Freddie Mac announced a new second mortgage purchase program at the beginning of 1986. As a result of careful underwriting and program design, Freddie Mac is able to provide interest rates on second lien mortgages that match those of first lien mortgages. Freddie Mac hopes to have a security backed by these second mortgages ready for introduction to the market shortly. This program will greatly benefit thrifts by providing another qualified short-term restructuring tool and providing liquidity for fixed-rate second mortgage which are high yield assets with shorter maturities than 30-year fixed-rate first mortgages.

4. Bank System Debt Issuance

The FHLBanks issued record amounts of debt in 1985 to fund advances to members and refund maturing debt. The advances programs provide members with a complete spectrum of maturities from overnight to 10 years at all times. This enables them to choose the most suitable liabilities for asset liability matching, restructuring, or liquidity purposes. Total debt sold amounted to $53 billion. Approximately one half was consolidated bonds of maturities between six months and ten years averaging three years and was relatively close to Treasury issue, averaging less than twenty basis points above comparable maturities. These relatively low borrowing costs are passed on to the members as reasonably inexpensive advances.

In addition to publicly sold domestic debt, the Banks continually search for alternative sources to provide even lower rates and more flexibility in financing the Bank System's expanding needs. During 1985, the Banks placed $400 million debt privately with both domestic and Japanese investors at rates below comparable public issue. The Banks continue to explore alternative debt vehicles in the Eurobond and Japanese markets. Both fixed and floating rate instruments are being evaluated. The Banks will issue such debt when market conditions for a given instrument are favorable enough to provide significant costs savings to the Banks and attractive advances to members.

VIII. CONCLUSION

In summary, the thrift industry continues to recover, slowly, from historic losses brought about by recent inflation and severe high short-term interest rates and, more recently and ominously severe and widespread asset quality problems. However, such recovery will continue to be subject to the pressures of significant undercapitalization and the risks I have described in a new deregulated environment. These problems, in turn, have imposed unprecedented strains on the FSLIC Fund.

We at the Bank Board are devoting our energies to helping the industry find renewed health, so that it can maintain and expand its commitment to home ownership in America, while at the same time protecting the insurance fund from undue exposure to risk. Unfortunately, even with the transfer of certain functions to the FHLBank system and approval of a FY 1986 supplemental budget appropriation, we would remain severely understaffed. Moreover, the uncertainties of Gramm-Rudman-Hollings threaten to retard even those first steps towards attaining adequate resources. I hope you will assist us in our important mission by providing the Board with sufficient budget and personnel flexibility--so we can deal effectively with the critical situation facing the national thrift system under our jurisdiction today.

This concludes my prepared statement. I should note that this statement is not subject to clearance through the OMB and the Administration.

Thank you very much. I will be pleased to answer any questions.

ATTACHMENT

MUTUAL-TO-STOCK CONVERSIONS
1972 - 1985

	FILED		APPROVED		COMPLETED	
Year	Yearly	Cumul Total	Yearly	Cumul Total	Number	Amount of Stock Sold (in millions)
1972-1974	31	31	0	0		
1975	6	37	6	6	1	1.3
1976	29	66	15	21	14	50.9
1977	25	91	10	31	14	29.6
1978	21	112	4	35	5	13.5
1979	42	154	17	52	15	114.4
1980	51	205	46	98	16	141.4
1981	57	262	39	137	37	126.6
1982	35	297	34	171	31	123.0
1983	115	412	108	279	83	2,734.0
1984	88	500	100	379	95	711.0
1985	52	507*	61	404**	76	1,384.0
				TOTAL	387	5,438.0

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* Adjusted for applications removed from the program.

** Thirty-six conversions were discontinued and the stock was not sold.

ATTACHMENT

SUMMARY OF SUPERVISORY DIRECTIVES
APRIL 1984 - FEBRUARY 1986

April 12, 1984 -	Board issued memorandum to supervisory agents to take firm corrective action in response to every report of examination that revealed substantial problems. In preparation, Board noted the need to address problems with deficient recordkeeping and excessive growth.
August 9, 1985 -	Chairman Gray issued memorandum to PSAs urging prompt corrective action for all significant violations of law, regulations, agreements or all significant unsafe or unsound practices. Memo explained when supervisory agreements are appropriate and when cease-and-desist or removal actions should be requested. Memo also addressed annual audits, reporting requirements, and the need to make supervisory directives more specific.
August 23, 1985 - (later amended Sept. 4, 1985 and November 15, 1985)	Chairman Gray issued memorandum to PSAs directing that vigorous use be made of formal enforcement tools for all material violations. Memo required that notices be sent to the Office of Enforcement and the Chief of Staff for each material violation requesting formal enforcement action or advising why it is not necessary.
October 11, 1985 -	Cover memo from Chairman Gray to the PSAs, attaching F. Passarelli's October 11, 1985 memorandum, SP-62, concerning supervision of S&L's failing their net worth requirement.
October 11, 1985 -	Memorandum from F. Passarelli addressing institutions that fail their growth restrictions (12 C.F.R. Section 563.13-1).
October 11, 1985 -	Memorandum from F. Passarelli addressing institutions that have high concentrations of high-risk loans.
December 2, 1985 -	Chairman Gray issued memorandum to PSA emphasizing high priority for his August 23rd directive on enforcement actions. Repeats that any material violations must result in immediate request for C&D order or an explanation of the reasons why a C&D is not being requested.

February 12, 1986	-Cover memorandum from Chairman Gray to the PSA, with copies to all professional examination and supervision staff, attaching F. Passarelli's memorandum, both dated February 12, 1986, addressing the importance of Interim Examination Reports. The Chairman highlights special attention for de novo institutions and contractual arrangements or agreements by controlling parties at insured institutions.

EMPLOYMENT FLEXIBILITY

Senator GARN. Thank you, Mr. Gray.

The principal focus of your remarks is the issue of attracting and retaining competent staff. Two years ago, you were hopeful that this could be accomplished within your budget limitations, and obviously that became impossible. The Board moved ahead and took your field examination staff off-budget. However, staffing problems still exist. Your statement is replete and full of new strategies to circumvent Federal employment and compensation restrictions.

Can we expect this to continue until you are fully off-budget?

Mr. GRAY. Mr. Chairman, I would have to say that our strategies are not intended to circumvent——

Senator GARN. I don't say that critically. I am very supportive of what you are trying to accomplish.

Mr. GRAY. But what we are trying to do, as I indicated before, is to exercise the authority that has been provided to us under law.

I guess what I am trying to say is, I don't necessarily consider the exercise of authority that has been granted by the Congress to us, such as the section of the National Housing Act, which allowed us to establish the Federal Asset Disposition Association; this section has enabled us to make such great progress.

We do intend to consider how best we can use our statutory authority to deal with the variety of challenges and problems we face in a deliberative manner. While I don't believe that we would expect to recommend or to consider taking everybody off-budget, I don't expect the Board members to go off-budget; certainly, the fact is there are instances where the exercise of law, which has been granted by the Congress, can indeed help us to do a better job. To that extent, we will consider those options.

Senator GARN. That is a very nice answer to the fact that you didn't like the use of my term "circumvent." We will strike the word "circumvent," and agree that you are doing what we know you are doing, and with my support.

Mr. GRAY. Thank you very much, sir.

Senator GARN. So the answer to the question is, yes.

Mr. GRAY. We never seek to exceed our authority.

EMPLOYMENT CLASSIFICATION AND COMPENSATION

Senator GARN. On page 11 of your statement, you note, as you did last year, that the Board is seeking an administrative waiver of employment classification and compensation regulations. Your statement implies that if such administrative relief is not granted, that you will be forced to seek legislation to permit parity between the Board and other financial regulatory agencies.

Does this imply that the Board has transferred off-budget all functions that it can legally do so within existing statutory authority?

Mr. GRAY. I would like to say, not yet, but I shouldn't. I would point out, however, that the transfer of the examiners, if you will, off-budget has served a very important purpose. Beyond that, we do point out on pages 10 and 11 of the prepared statement some of the difficulties that we face.

I know that time is short, but I will call the subcommittee's attention to the fact that because of the disparities, we have a great many problems. For example, in fiscal year 1985, the percentage of separations at the GS–13 level and above was 52 percent in the Office of General Counsel; 39 percent in the Office of Examinations and Supervision; and 33 percent in the Federal Savings and Loan Insurance Corporation.

While many of these employees are finding more lucrative positions in the private sector, some are leaving for comparable jobs with higher compensation at our sister financial regulatory agencies. So we do intend to meet with the Director of the Office of Personnel Management, requesting an administrative determination exempting the Bank Board from the Classification Act and related compensation regulations. We believe that this serves the interests of equity.

STAFFING INCREASES

Senator GARN. You have requested a supplemental of $3.4 million to fund an additional 95 positions. The fact that the Board obtained administration approval of this request is noteworthy in that few agencies were successful in this regard.

What assumptions did you use for availability of this increase to begin staffing and utilizing the full amount of that increase?

Mr. GRAY. This supplemental first must be approved before any of these administration-approved positions can be filled because the funding is needed for pay and related employee expenses.

I would also answer by saying that the exact amount needed in the supplemental may be reduced depending on how late in the fiscal year the supplemental is approved. We look very, very carefully at our needs. We have asked all of our office directors to take a look at their own offices in light of the challenges that we must meet in our responsibilities to the Congress and the President. We have fashioned a budget, and we are very hopeful that the consideration given us will help us to do our job better.

APPORTIONMENT OF FSLIC FUNDS

Senator GARN. Last year there was a dispute between OMB and the Bank Board on the application of the Anti-Deficiency Act requirements for apportionment of nonadministrative funds of the insurance fund.

Last year, we received notification that a violation of the Anti-Deficiency Act did, in fact, occur. Could you explain how this issue was resolved?

Mr. GRAY. Well, let me say that the Bank Board reached an agreement with OMB in October 1985, whereby the former 11 OMB apportionment categories were reduced to 4 categories. I say this because the consolidation of apportionment categories is definitely an improvement in that it affords the Bank Board somewhat greater flexibility in carrying out the FSLIC's default prevention and other insurance-related activities.

In addition, in October 1985, the Bank Board did file a report of a purely inadvertent, technical violation of the Anti-Deficiency Act which occurred in July 1982 when the Board acted at that time, with FSLIC assistance, to prevent the imminent default of three savings and loan institutions.

Again, I want to emphasize that this was inadvertent, merely technical, but I will say that this matter, as far as we are concerned, is now considered closed. I believe I can say that that view is shared by both the Bank Board and OMB.

MANAGEMENT CONSIGNMENT PROGRAM

Senator GARN. It is encouraging for me to note that the FSLIC fund is showing an increase in total reserves, up some $400 million in the last calendar year.

To what extent, however, does your use of the Management Consignment Program, whereby liquidation is postponed, reduce fund liabilities or depletion?

Mr. GRAY. As you know, we are constrained by the resources of the FSLIC in dealing with a litany of problems. As a result, in 1985 the Bank Board instituted what you have referred to as the Management Consignment Program. This is a program in which, where there is a failing institution, we bring in the best management that we can find in the savings and loan industry, under contract, to run insolvent institutions. This enables us to get a better handle on the portfolio mix of the institution, on the nature of the management they have at the institution, certainly, to restore confidence in the institution. I think that the program has served a very useful purpose.

It is a stretch out kind of program to enable us to better deal with our problems in a more rational way, and to stabilize these institutions while we seek to determine how to resolve the problems. To that extent, the program, I think, has served an extremely useful purpose.

Perhaps there might have been other alternatives, but in our view, even retrospectively, we believe that the program should continue to be used on a case-by-case basis to deal with these problems.

Senator GARN. If you are concerned about that long buzzer, it is not a fire alarm, it is far more serious than that. The Senate is in session, and the country is now in danger.

[General laughter.]

Senator Proxmire.

ECONOMIC CONDITIONS

Senator PROXMIRE. Thank you, Mr. Chairman.

Mr. Gray, it is good to see you and it is good to see that you are under the same iron rule in this committee as you are in the authorizing committee of our fine chairman.

Unfortunately, I apologize, I had to be at a hearing of the Defense Appropriations Subcommittee before I had a chance to come here.

I have two questions, really. One question relates to the basic health of the thrift industry. It seems to me that, aside and apart from the individual institutions, we have an overall serious problem in our country because of the—I am not talking about the Federal debt, but I am talking about the individual heavy debt of people, the fact that the installment is at an all-time high or close to it, and that the savings rate is very, very low.

That fundamental underlying problem, it seems to me, has to be considered along with the other considerations that you make in your statement.

Could you give us just a generalized, brief view of how the status of the economy, in your view, affects the problems of the FSLIC and the Home Loan Bank Board?

Mr. GRAY. Obviously, very high interest rates were a key factor to the sensitive savings and loan business. The fact that interest rates have moderated to levels that are equivalent to those back in the 1970's has been a godsend to the thrift industry.

Without that, and to the extent that interest rates generally were to increase, our institutions, the health of the national thrift system would be directly and, I think, adversely impacted. We thank God, if you will, that rates are now at the lower levels.

We are in the business of encouraging personal savings in our industry, and we have been for a half-century now. I believe, as a fundamental matter, that the savings rate in our country should increase. I think that would be a view shared by most people.

When we look at other countries, such as Japan, and other Western countries, we do find savings rates that are substantially higher.

I would say that our institutions are trying to do their part to encourage personal savings in our institutions, and the FSLIC, of course, protects savings that are placed in our institutions.

Installment debt is high, as you suggest. This is within a universe that is substantially beyond the policies that the Federal Home Loan Bank Board, of course, has anything to do with. But that is one of the reasons, I think, that those of us on the Bank Board are very proud of the role that savings institutions play in our society, to encourage people to place their funds for investment in these insured institutions.

Senator PROXMIRE. I understand that Regulation Q expires this year.

Mr. GRAY. Yes.

Senator PROXMIRE. That should help. I think that it might be difficult for the S&L's, but in the long run, it seems to me, it provides a greater incentive. The low interest rates, I agree with you, are very helpful. But if you have low interest rates that differentiate, and you have the mandated legal restriction on the interest rate that can be paid by S&L's, compared with the no limit on the alternatives, it seems to me that S&L's are at a serious disadvantage, and the expiration should help the S&L's.

Mr. GRAY. As you know, Senator, I have been one of the most outspoken proponents, even since its development, of the Garn-St Germain Act, which in 1982 allowed our institutions to offer the money market deposit account. I have been a member of the——

Senator PROXMIRE. You have also been a supporter of the Proxmire-Reuss Act that went into effect in 1980.

Mr. GRAY. That is the Depository Institutions Deregulation and Monetary Control Act, is that the act, in 1980?

Senator GARN. In March 1980.

Senator PROXMIRE. I like to have the authors' name on it.

[General laughter.]

Senator PROXMIRE. It is easier for me to remember them.

Mr. GRAY. I am glad that you mentioned it. I am especially pleased that you mentioned that.

Senator GARN. If you want to carry this further, I was a cosponsor of that.

[General laughter.]

Senator PROXMIRE. We will call it the Garn-Proxmire-Reuss Act.

Mr. GRAY. There is one thing, though, that we must not forget when we talk about rates, and the removal of Regulation Q, et cetera. We have concerns that too many of our institutions in this country are paying rates that, I believe, are excessive for funds. To the extent that rates are paid which are higher, for example, than the median level at commercial banks, we find that the high rate paying institutions end up placing those funds all too often in investments that are risky, or that involve excessive risk, which in too many cases have ended up at the doorstep of the FSLIC.

Yes, we want to encourage savings. We want these institutions to not have to face the kind of disintermediation problems that we had in the 1970's, and in 1981 and 1982. At the same time, it is extremely important that our institutions and we in the banking system work closely with our institutions, particularly the high rate payers, to try to get them, wherever possible, to reduce rates so that they do not, in the end, become a burden on the FSLIC, when these moneys end up in risky investments which turn sour.

IMPACT OF THE GRAMM-RUDMAN ACT

Senator PROXMIRE. I just have one other question, and that relates to what all of us are so concerned about, and you mentioned in your summary, the Gramm-Rudman effect on your operations, particularly the effect 7 months from now, on October 1 when the next sequestering order may go into effect. We hope and pray that it won't. There is good reason to feel that the Congress and the President may work out something as a compromise.

If it goes into effect, it could mean a very, very sharp reduction, much more severe than what is going to happen on March 1, because it may be 12, 15 percent, or maybe more, cut in your staff. You say you are understaffed now. The question is, Why does it apply to your operation?

You are funded on the basis of premiums paid by the people that you regulate.

Mr. GRAY. I am glad that you brought that up. I couldn't agree with you more. Every penny in support of the Federal Home Loan Bank System, the Federal Home Loan Bank Board, the FSLIC, is paid by the savings and loan industry.

Senator PROXMIRE. That is the argument that is used to justify exempting social security. It is a separate, dedicated tax, only to be used for social security. Therefore, it seems to me that if the social security or the Federal Home Loan Bank Board were to run a surplus, it could only be used for their purposes.

Mr. GRAY. I couldn't agree with you more, and I know that I share the views of my colleagues here.

Senator PROXMIRE. I haven't heard any argument on the other side of that, and I hope that we can get some consistency with respect to that. Of course, the more we exclude, the more difficut it is for those who remain. On the other hand, we have this fundamental principle which simply makes sense.

Mr. GRAY. We hope, as things turn out down the way, that the problems that we would face as a result of Gramm-Rudman can somehow be worked out by the Congress and the administration.

In the meantime, we are not waiting to try to deal with our own problems. I would tell you that in the Federal Home Loan Bank System, under delegated authority, but directly under the control of the Federal Home Loan Bank Board, because we are responsible to you in the Congress, we are watching very closely everything that is going on in our system, particularly in the fields of examination and supervision.

Senator PROXMIRE. You have the option to be able to meet that by raising your premium payments, rather than reducing your staff?

You are in a position, as I understand it, where if you are really going to do the job, you cannot substantially reduce your staff, otherwise you have a situation where you can't provide the kind of safety and soundness regulation that all of us expect.

Mr. GRAY. We don't want to see the staff reduced. We have the Federal Home Loan Bank System, which serves us, and which serves the thrift industry in a very unique way. I marvel at the wisdom of the authors of the Federal Home Loan Bank System a half century ago, and I am thankful that the Congress, in the passage of the 1982 Act, gave us the ability to delegate to administrative units, and to the Federal Home Loan Banks under our direct control some of the functions that have to, on an ongoing basis, be done, and our role as regulators for safety and soundness, and for compliance with laws and regulations.

Again, thanks to your comments and those of the chairman, last year we were able to delegate the authority for examination out to the principal supervisory agents in the Federal Home Loan Bank districts. But, they, again, report directly to the Bank Board. In a certain sense, perhaps not a legal sense, maybe my lawyer would have a bit of difficulty with this, but they serve at our pleasure.

INCREASED INSURANCE PREMIUMS

Senator Proxmire. Let me ask the question again. Could you meet the Gramm-Rudman requirements by increasing the premium?

Mr. Gray. No, we cannot, statutorily. We have exercised our authority to the maximum under the law. We have collected a special assessment in 1985, continuing into 1986. It is collected quarterly, and is one-eighth of 1 percent of deposits over a year period. That is the full extent of our authority under the law, above and beyond the regular premium which is one-twelfth of 1 percent.

Senator Proxmire. You are meeting your obligations and you are not running a deficit.

Mr. Gray. No, we are not. We have no reason to expect that we would.

Senator Proxmire. Thank you, Mr. Chairman.

CLOSING REMARKS

Senator Garn. Let me say that the problem is not one to figure how to raise premium rates, it is how to get the Federal Home Loan Bank Board removed from Gramm-Rudman. In my discussions with the Budget Committee staff and Senator Domenici, I don't think that they even thought about that at the time that it was going through. It does make no sense whatsoever, and the same thing with the FDIC. I have been making efforts to see how we can have them exempted because both funds are totally funded by the member institutions and have nothing whatsoever to do with tax revenue.

With all of our colleagues who are constantly worrying about safety and soundness, it makes no sense whatsoever to cut back enforcement at a time when you are trying to shore up both the banks and savings and loans of this country. So we do need to find some means of recognizing reality, not that we are trying to escape reducing the deficit, but these are not taxpayer funds, and a lot of people don't seem to understand that.

Mr. GRAY. Thank you, Mr. Chairman.

Let me say, I cannot tell you how appreciative we are of the spirit of your comments today, and your comments, Senator, in support of what we are trying to do. I would hope that those comments would extend to understanding and consideration of the Bank Board's priorities when we are dealing with the massive problems that we have, and in terms of exercising our prerogatives under law in a manner which we see fit. This will best serve the interests of safety and soundness of the thrift industry.

I would also like to request, respectfully, that this document be entered in the record. It is a listing of the significant supervisory directives which the Bank Board has taken, going back to 1984, to enhance, improve, and strengthen the supervision and enforcement of our institutions and to protect the FSLIC.

Senator GARN. We will be happy to include that in the record.

[The information follows:]

SIGNIFICANT SUPERVISORY DIRECTIVES
ISSUED BY FEDERAL HOME LOAN BANK BOARD
CHAIRMAN GRAY AND SENIOR STAFF

INDEX TO SUPERVISORY DIRECTIVES

Description	Exhibit No.
April 12, 1984 memorandum from Bank Board Members stressing need for immediate supervisory actions in response to all final or interim examination reports that reveal substantial problems	Exhibit A
August 9, 1985 memorandum from Chairman Gray directing, *inter alia*, that supervisory correspondence must be firm and precise and that there should be no hesitancy to recommend formal enforcement actions where violations or unsound practices cannot be resolved expeditiously through informal supervisory efforts	Exhibit B
August 23, 1985 memorandum (as amended September 4, 1985 and November 15, 1985) from Chairman Gray directing vigorous use of all formal enforcement tools, and establishing new reporting procedures for all material violations of laws, regulations and agreements	Exhibit C
December 2, 1985 memorandum from Chairman Gray emphasizing the high priority of the August 23rd memorandum	Exhibit D
October 11, 1985 memorandum from Chairman Gray with respect to institutions failing regulatory net worth requirements, attaching October 11, 1985 memorandum from the Office of Examinations and Supervision ("OES") about same subject	Exhibit E
October 11, 1985 memorandum from Acting Director of OES directing immediate supervisory or enforcement action to resolve violations of the growth regulation . .	Exhibit F
October 11, 1985 memorandum from Acting Director of OES alerting supervisory staffs to institutions that have reported high level of high-risk lending	Exhibit G

February 12, 1986 memorandum from Chairman Gray directing the immediate reporting of significant problems detected during examinations via interim exam reports. Memorandum attaches corresponding memorandum of same date about interim reports from Acting Director of OES and newly revised section of examiners' manual about interim reports. Chairman Gray's February 12th memorandum also directs expeditious reporting of all violations of net worth maintenance agreements, personal guarantees or FSLIC assistance agreements by controlling parties of insured institutions . . Exhibit E

EXHIBIT A

FEDERAL HOME LOAN BANK BOARD

Office of the Chairman

APR. 1 2, 1984

To: All Supervisory Agents, OES Assistant
Directors and District Directors

Subject: Supervisory Actions

The administration of proper, timely and forceful supervisory actions in problem cases is of utmost importance to this Board. In that light, we want to reaffirm and stress some of our standard operating procedures regarding supervisory actions and to require some additional procedures aimed at ensuring that full supervisory responsibilities are met. In light of problems that have occurred, implementation of these procedures is of utmost urgency and should begin immediately.

1. When examination reports -- final or interim -- reveal substantial problems of any type, the Supervisory Agent will immediately meet with the institution's board of directors and: (1) discuss the problems; (2) require expeditious corrective action and; (3) obtain a formal supervisory agreement in order to obtain such corrective action.

2. The Supervisory Agents are directed to review all exam reports completed within the last 12 months for comments which disclose disarray in the institution's books and records to such an extent that they do not provide an accurate and complete record of all business transactions. Such failure to maintain records is a violation of the insurance regulations and is an unsafe and unsound practice. If an institution has not promptly take appropriate corrective action after the Supervisory Agent has requested corrective action as described in (1) above, the Supervisory Agent is to immediately refer the case to the Enforcement Division of OGC, through the OES Assistant Director, for the initiation of a cease and desist proceeding. Similarly, if future examination reports disclose failures to maintain adequate books and records, as described above, the Supervisory Agents are directed to follow the same procedures.

3. The OES District Directors are directed to obtain immediate on-site evaluation of institutions that exhibit excessive growth or significant behavioral deviations from past performance.

4. The Supervisory Agents are directed to require submission of business plans by the proposed applicants in connection with all change of control filings. The District Directors of OES are directed to examine institutions within six months after the change in control and to determine that the institution is operating pursuant to the business plan.

5. The OES Assistant Directors-Regional Operations are responsible for monitoring the results of examinations and the resulting supervisory actions to ensure that uniform, effective and appropriate supervisory actions are taken. If the supervisory actions are not appropriate, the Assistant Directors will take immediate, forceful corrective action.

Edwin J. Gray
Chairman

Donald I. Hovde
Board Member

Mary A. Grigs

Mary A. Grigsby
Board Member

EXHIBIT B

FEDERAL HOME LOAN BANK BOARD

Office of the Chairman

August 9, 1985

MEMORANDUM FOR: Principal Supervisory Agents

FROM: Edwin J. Gray EJG
Chairman

SUBJECT: Supervision

During a recent review of several significant supervisory cases, I have noted several deficiencies which should be corrected. While these do not occur uniformly or consistently throughout the twelve districts, I want to call their attention to all of you so that appropriate review and correction can be undertaken.

I. Annual Audits

A. Extensions: "Routine" or "repeated" extensions of time should not be allowed. Any extension should be thoroughly justified by a written request. Associations should be alerted that tardy audits and especially repeatedly tardy audits will be deemed absolutely unacceptable.

B. Change in Accountants: If there is an action terminating the services of a public accountant, voluntarily or involuntarily, the institution must notify the Director of Examinations* in writing (with a copy to the public accountant) within 10 days after the close of the month during which the termination occurs. Such notification must indicate the reason for the termination and must state whether in the past 24 months there were any unresolved issues, or alternatively, there were any disagreements with the terminated public accountant on any matter of accounting principles or practices, financial statement disclosure, or auditing procedure, which disagreements if not resolved to the satisfaction of the terminated public accountant would have caused him to make reference, in connection with his opinion, to the subject matter of the disagreements. The institution will also request the terminated public accountant to furnish the institution with a letter (with a copy to the Director of Examinations) stating whether he agrees with the statements contained in the letter of the institution and, if not, stating the respects in which he does not agree. Within 10 working days of receipt of the notification of termination, the terminated public accountant must have a meeting with the Director of Examinations, or his designee to discuss fully the reason for the termination. The institution must not appoint a replacement public accountant prior to the written notification to the institution by the Director of Examinations or his designee that this meeting has taken place. The engagement letter specified in Bulletin PA-7a, Section IV, paragraph B must be furnished to the Director of Examinations by the replacement accountant prior to the commencement of any audit work or the audit will be considered prima facia unacceptable to the Corporation.

II. Reporting Requirements

Firm supervisory action (and where needed on-site examination) should be taken where an association is repeatedly late with required reports (monthly, quarterly, brokered funds, etc.). When a significant report is substantially or repeatedly tardy, use examination personnel to obtain the information on-site at the association's expense.

III. Supervisory Directives

Many supervisory letters or directives are "open ended" and impose no timelines either for response or corrective action. All supervisory letters and directives should have a deadline for response and while not all problems are amenable to strict timetables for correction, general timelines should be imposed and adhered to. Certainly clear deadlines can and should be set for plans for corrective action and reports on the status of corrective action.

IV. Supervision and Examination Redundancies

As we more adequately staff in both examination and in supervision attention must be given to cross-training personnel and in assuring backup procedures for operations.

Lapses in monitoring, action, etc. should not be occasioned because of resignation, vacation, or other absence. In the event that a staff member becomes totally absorbed in a single case or assignment, his or her remaining caseload should be covered by other personnel.

V. Enforcement Actions

There is a perception among some members of supervisory staffs that firm supervisory and enforcement actions cannot be taken in certain cases because of a lack of legal authority. The statutory authority of the Board to initiate cease-and-desist proceedings is very broad, and its authority to issue temporary cease and desist orders and to initiate removal and prohibition actions also is broad, as the following excerpts from Section 407 of the National Housing Act indicate:

Cease-and-Desist Proceedings

> If, in the opinion of the [Federal Savings and Loan Insurance] Corporation, any insured institution . . . or any director, officer, employee, agent or other person participating in the conduct of the affairs of the institution is engaging or has engaged . . . in an unsafe or unsound practice . . . or is violating or has violated . . . a law, rule or regulation or any condition . . . or any written agreement entered into with the Corporation . . ., the Corporation may issue and serve upon the institution or . . . person a notice of charges in respect thereof. 12 U.S.C. § 1730(e).

Temporary Cease-and-Desist Orders

> Whenever the Corporation shall determine that the violation or the unsafe or unsound practice . . . specified in the notice of charges . . . or the continuation thereof, is likely to cause insolvency or substantial dissipation of assets or earnings of the institution, or is likely to seriously weaken the condition of the institution . . ., the Corporation may issue a temporary order . . . . 12 U.S.C. § 1730(f).

Removal and Prohibition Actions

> Whenever, in the opinion of the Corporation, any director or officer . . . has committed any violation of law, rule, regulation . . .

> or has engaged . . . in any unsafe or unsound practice . . . or breach of fiduciary duty . . . and . . . the institution has suffered . . . substantial financial loss or other damage . . . or the director has received financial gain . . . and that such violation or practice or breach . . . is one involving personal dishonesty . . . or . . . a willful or continuing disregard for the safety or soundness of the institution, the Corporation may serve upon such officer or director a written notice of its intention to remove him . . . . 12 C.F.R.) 1730(g).

There should be no hesitation to recommend the initiation of cease-and-desist proceedings for any significant violations of laws or regulations or for practices believed by the Supervisory Agent to be unsafe or unsound: (1) where Supervision has been unable to resolve the violations or unsound practices through informal supervisory efforts, including the use of supervisory agreements, or (2) where the violations or unsound practices are deemed by the Supervisory Agent to be so serious that cease-and-desist action, rather than informal efforts, is required in the first instance. Similarly, there should be no hesitancy to recommend temporary cease-and-desist orders or removal actions if the Supervisory Agent feels they are necessary to achieve regulatory compliance or the safe and sound operation of an institution. Even if OGC determines that the facts in a case are insufficient to pursue one remedy (such as issuance of a temporary order to cease and desist), it is almost always possible to pursue other alternatives (such as issuing a Notice of Charges and Hearing) that effectively bring the deficiencies to the attention of a troubled institution.

Last year, in a memorandum dated April 12, 1984, the Board Members and I stressed to all Supervisory Agents the need to obtain supervisory agreements to achieve corrective action for substantial problems revealed by final or interim reports of examination. We continue to believe that the expeditious execution of supervisory agreements should be sought to address significant problems at institutions, and we are pleased that a number of Districts have greatly expanded their use of such agreements in the last year. Because, as noted above, one clear ground for the institution of cease-and-desist proceedings is the violation of any written agreement (such as a supervisory agreement) with the Corporation, the prompt use of supervisory agreements to halt practices that may not initially warrant a formal proceeding may well expedite the issuance of a formal cease-and-desist order if the practice continues. Moreover, any refusal to execute an agreement by an institution and any significant violations of a supervisory agreement after it is executed should be referred to OGC Enforcement for its consideration of initiating a cease-and-desist proceeding.

With repect to removal actions, the Board notes with approval that an increased number of formal removal and prohibition orders have been negotiated by OGC Enforcement and OES in the last year. In addition, increased numbers of informal management resignations have been obtained by Supervisory Agents in cases where a formal order is not deemed necessary. All Supervisory Agents are encouraged to consider all of the options before them when dealing with negligent or wrongdoing management officials, and OGC Enforcement is available to discuss these options with Supervisory Agents prior to their taking any specific action. In no event should Supervisory Agents fail to take action because of any uncertainty as to the availability of formal enforcement tools.

EXHIBIT C

FEDERAL HOME LOAN BANK BOARD

Office of the Chairman

August 23, 1985
(As amended
September 4, 1985
and November 15, 1985

MEMORANDUM FOR: Principal Supervisory Agents

FROM: Edwin J. Gray
Chairman

SUBJECT: Directive Regarding Formal Enforcement Actions and Supervisory Agreements

As a follow-up to my memorandum of August 9, 1985, directing that we make vigorous use of the formal enforcement tools available to us, the following policies and procedures shall be effective immediately.

Principal Supervisory Agents ("PSA") shall have the responsibility for making recommendations for the initiation of formal examination proceedings (Section 407(m)(2) investigations) and formal enforcement actions (cease-and-desist proceedings, removal and/or prohibition actions, enforcement of existing orders, suits to enjoin violations of the Holding Company Act or Change in Control Act, etc.) for matters arising in their Districts. PSA's may delegate this responsibility within their own District as they feel appropriate, but shall be ultimately accountable for assuring that such recommendations are made swiftly and in the most expeditious manner possible.

Supervisory Agreements shall be written with precision, specification as to corrective actions or goals, and with clear, that is to say, precise deadlines established. Failure to comply with the material provisions of statutes, regulations, or Supervisory Agreements (including achievement of deadlines) shall be immediately reported in writing to the Bank Board. Notice of such non-compliance shall be accompanied by a written request for a cease-and-desist or other appropriate formal enforcement action or an explanation or valid reason why formal enforcement action is not sought.

All such notices of non-compliance and all recommendations for any formal investigation or enforcement action or requests for consideration and advice about possible enforcement proceedings, shall be in writing and are to be sent directly to the Director, Office of Enforcement for action. Copies of such notices and requests shall be sent simultaneously to the appropriate OES Assistant Director for Regional Operations ("ADRO") and to the Office of the Chief of Staff. Referrals that are made to the Office of Enforcement from other sources, such as the Corporate and Securities Division of OGC or other Bank Board offices and divisions, also shall be provided to the appropriate PSA, ADRO, and the Office of the Chief of Staff.

Any questions or conflicts about priorities for enforcement actions in a particular district shall be resolved by the PSA or his designee after consultation with the Director of the Office of Enforcement and the ADRO.

FEDERAL HOME LOAN BANK BOARD

September 4, 1985

MEMORANDUM TO: Principal Supervisory Agents

FROM: Edwin J. Gray
Chairman

With respect to my memorandum entitled "Directive Regarding Formal Enforcement Actions and Supervisory Agreements," dated August 23, 1985, please insert the word "material" before the word "provisions" in the third paragraph, line 19, of the directive. This is to clarify the intent of the reference made in the directive pursuant to our discussions at the Principal Supervisory Agents' meeting on August 27, 1985. Please advise your Supervisory Agents of this clarification.

November 15, 1985

MEMORANDUM TO: Principal Supervisory Agents

FROM: Edwin J. Gray
Chairman

SUBJECT: Directive Regarding Formal Enforcement Actions and Supervisory Agreements

Attached please find a revised version of my memorandum to you of August 23, 1985, about formal enforcement actions and supervisory agreements. The memorandum has been changed to reflect the creation of the Office of Enforcement, to which all recommendations for formal enforcement actions, notices of non-compliance required by the August 23rd memorandum, and other requests for assistance or advice about enforcement actions should be sent. The Office of Enforcement has the responsibility for responding to all such matters with the qualification that it will defer to the opinions of the General Counsel with respect to issues concerning the legal interpretation of laws and regulations.

EXHIBIT D

FEDERAL HOME LOAN BANK BOARD

MEMORANDUM

FROM: Edwin J. Gray
Chairman

DATE: December 2, 1985

TO: Principal Supervisory
Agents

SUBJECT: Enforcement Actions

This is to emphasize once again the continuing importance -- high priority -- of compliance by all Supervisory Agents with the directive I sent to Principal Supervisory Agents on August 23, 1985, as amended on September 4, 1985 and November 15, 1985. Compliance with the directive requires that when any material violation of statute, regulation or Supervisory Agreement is discovered, Supervisory Agents will immediately (without delay) request, in writing, a cease-and-desist order, or Supervisory Agents will immediately explain in writing the reasons why a cease-and-desist order is not being requested, if other corrective action is sought. All such written communications are to be made to the Director of the Bank Board's new Office of Enforcement with simultaneous copies to the appropriate OES Assistant Director for Regional Operations and to the Office of the Chief of Staff.

cc: Supervisory Agents

EXHIBIT E

FEDERAL HOME LOAN BANK BOARD

October 11, 1985

MEMORANDUM FOR: Principal Supervisory Agents

FROM: Edwin J. Gray, Chairman

SUBJECT: Institutions Failing to Meet Net Worth Requirements

Earlier this year the Board adopted new minimum net worth requirements which were designed to address a major problem facing the thrift industry, i.e., inadequate capitalization. The Board strongly believes that compliance with these requirements is essential to the long-term viability of the industry and the FSLIC.

Attached is a memorandum from OES Acting Director Frank Passarelli which sets forth supervisory procedures with respect to those institutions which fail to meet the requirements of Insurance Regulation 563.13. Your supervisory staff should begin immediately to implement these procedures. Non-compliance with the minimum net worth requirements should be pursued in the manner suggested by my memorandum of August 9, 1985 wherein I stressed the necessity to take aggressive corrective action to resolve material violations of laws, regulations, supervisory agreements, and unsafe and unsound practices by insured institutions.

Attachment

FEDERAL HOME LOAN BANK BOARD
OFFICE OF EXAMINATIONS AND SUPERVISION

MEMORANDUM SP-62

TO: Principal Supervisory Agents — October 11, 1985

FROM: Francis M. Passarelli
Acting Director, OES

Supervision of Institutio
Failing to Meet Net Worth
Requirements

SYNOPSIS: SUPERVISORY PROCEDURES WITH RESPECT TO THOSE INSTITUTIONS WHICH FAIL TO MEET THE REQUIREMENTS OF INSURANCE REGULATION 563.13.

Based on June 30, 1985 Quarterly Report data, an extremely large number of institutions are not meeting their net worth requirements. (A list of those institutions in your respective districts is being issued under separate cover.) In many cases the cause of the depleted net worth is due to losses associated with the high interest rates of the early 1980s. In a growing number of cases, the institutions' failure not only to meet net worth requirements but to remain solvent has been due to excessively rapid growth, high levels of direct investment, and losses from excessively risky lending practices. This Office has observed with serious concern the numerous cases of institutions failing net worth requirements that have embarked on rapid growth paths and/or have greatly increased investment in such risky areas as construction loans, commercial real estate loans, land loans, ADC loans, junk bonds, and service corporation investment. In many of these cases, the growth also is fueled by the national solicitation of insured deposits at interest rates which exceed competitive averages. Under separate covers, we are also issuing a list of associations greater than $100 million in assets which have annual growth greater than 25%, and a list of all insured institutions in your district showing their level of concentration in certain high-risk assets. These lists, reviewed in conjunction with the list of institutions violating net worth requirements should assist you in identifying those insitutions which are of greatest concern.

Section 563.13(d) of the Insurance Regulations enumerates actions which may be ordered in the event an institution fails its net worth requirement. While situations may vary from case to case, effective sanctions are appropriate and mandatory when the net worth failure is caused by rapid growth, direct investment, or scheduled items, especially if the institution is heavily involved in speculative real estate ventures whether they be loans or direct investments.

In light of the rapidly changing nature of savings institutions failing their net worth requirement, as a general rule, institutions failing their net worth requirement should not be permitted liability growth in excess of that amount implied by interest credited, except insofar as it is necessary to meet loans-in-process obligations or legal commitments binding at the time that supervisory action is taken. Exceptions to this policy are justified only when an institution can demonstrate to the satisfaction of the Supervisory Agent that its net worth deficiency is temporary and rapidly correctable, and when the Supervisory Agent has ascertained the credit quality of the institution's assets by appropriate examination. Such institutions also should be required to reduce the amount of deposits obtained either locally or nationally by paying premium rates, unless the requirement would result in a liquidity crisis for the institutions or the institutions can prove to the satisfaction of the Supervisory Agent that their savings solicitation practices are being conducted pursuant to a prudent plan approved by the Supervisory Agent. Furthermore, institutions failing their net worth requirements that have, in your judgment, excessive high-risk investments in such categories as (1) construction loans, (2) commercial real estate loans, (3) land loans, (4) ADC loans, (5) real estate investments, or (6) service corporation investments should be required to document to your satisfaction that their investment decisions in all areas of operations are based on sound business principles. If any such institution fails to demonstrate that its investment activities do not pose an increased risk to the FSLIC, it should be required to reduce the amount of any high-risk investments to acceptable levels within a reasonable, but not protracted, period of time. The measures described herein are in addition to and do not limit any other actions you deem appropriate to correct the regulatory violation and unsound practices and investments of an institution, including the remedies listed in Section 563.13(d).

As a general rule, each institution that fails its net worth requirement should be required to adopt a corrective net worth action plan, with appropriate time frames, that will remedy the regulatory violation. If alternative measures already have been implemented, such as appointment of conservator, granting of forebearances in connection with a merger or acquisition, placing an institution in the Management Consignment Program, or a binding agreement or order that addresses these matters, the corrective action plan may not be appropriate. A corrective action plan could be incorporated into a business plan, if deemed appropriate by the Supervisory Agent. In a case where the institution fails to meet its net worth requirement and its operations are characterized by rapid, uncontrolled growth and high-risk investments, the corrective action plan should be imposed either by cease and desist action or by a supervisory agreement, depending upon your analysis as to the seriousness of the problem.

If you have not done so already, please verify the actual net worth failure for each institution on the attached list. Additionally, please inform your Assistant Director for Regional Operations no later than October 31, 1985, of the specific supervisory measures you have taken or will take to address each net worth failure in your district.

Acting Director

EXHIBIT F

FEDERAL HOME LOAN BANK BOARD

OFFICE OF EXAMINATIONS AND SUPERVISION

October 11, 1985

MEMORANDUM FOR: Principal Supervisory Agents

FROM: Francis M. Passerelli
Acting Director, OES

SUBJECT: Non-Compliance with Growth Requirements
(Insurance Regulation 563.13-1)

Attached is a list of those institutions in your district with assets greater than $100 million which were growing at an annual rate greater than 25 percent for the six-month period ending June 30, 1985. This list identifies the institutions which were involved in mergers during the period, but does not indicate the institutions that were granted prior approvals from your office for rapid growth. If you have not done so already, please verify whether or not these institutions are in compliance with Section 563.13-1.

We believe that unless your supervisory staff has previously taken action to bring the institution into conformity with the regulation, each institution that has violated the growth requirement should be directed to adopt immediately a resolution agreeing to correct the violation, or you should either obtain a supervisory agreement immediately to accomplish this result, or you should immediately request a cease and desist action.

A board of directors resolution would be appropriate only where, in your judgment, the violation appears minor and the institution does not present a material risk to the FSLIC. Supervisory agreements or cease and desist orders are appropriate in all other cases. Regardless of the approach deemed appropriate in a specific case, the institution should be required to achieve compliance with Section 563.13-1 by December 31, 1985, unless such date causes undue hardship to the institution.

EXHIBIT G

FEDERAL HOME LOAN BANK BOARD

OFFICE OF EXAMINATIONS AND SUPERVISION

October 11, 1985

MEMORANDUM FOR: Principal Supervisory Agents

FROM: for Francis M. Passarelli
Acting Director

SUBJECT: Concentration in High-Risk Mortgage Loans

Attached for your attention is a copy of a computer analysis prepared by OES staff members, which is based on the June quarterly report. The analysis has been designed to identify associations which may be in need of heightened supervisory attention predicated upon the most basic "go-go" characteristics of the thrift industry, namely rapid, uncontrolled growth and high-risk investments.

The column "Risk Mortgage Loans" on the attached report includes only loans secured by real estate of the following types:

- Five or more dwelling units.
- Commercial and industrial properties.
- Raw land and land acquired for development.

(These do not represent all of an institution's high-risk investments, such as unsecured commercial loans, direct investments, junk bonds, and the like.)

Concentrations in high-risk mortgage loans coupled with rapid growth should invite thorough examination and effective supervisory follow-up, even if the association has reported compliance with its net worth requirement. Growth on the report is listed in two manners. The first being the total dollar amount of asset growth in a one-year period of time (between June '84 and June '85), and secondly, as a percentage of growth in assets over the one year ended June 30, 1985.

Also listed is the most recent examination date and the rating assigned. If the warning signs are evident in the portfolio composition and/or growth performance, it should be determined whether the association has had an adequate and recent examination which assessed its loan underwriting, risk levels, and overall business plan. It should be noted that even though the attached reports show an examination may have been performed recently, the scope of the examination may not have included broadly enough these areas of concern.

As you well know, an acceptable level of risk is a subjective and relative quantity which will require the exercise of your professional judgment. However, I would suggest that, at a minimum, you should devote attention to those institutions which have "risk mortgage loans" exceeding 40% of their mortgage loan portfolios, especially those which grew faster than 25% during the year ended June 30, 1985, and which you know are continuing to grow near or above that level.

EXHIBIT H

FEDERAL HOME LOAN BANK BOARD

EDWIN J. GRAY
CHAIRMAN

FEB 12 1986

TO: Principal Supervisory Agents

FROM: Edwin J. Gray, Chairman

SUBJECT: Interim Examination Reports

Attached is a revised Interim Report Section of the Examination Objectives and Procedures (EOP) to the Directors of Examinations. Each Examiner-in-Charge shall make a prompt interim report to the Director of Examinations, who in turn should immediately forward the report to the Principal Supervisory Agent, whenever an examination uncovers information of significant nature that adversely affects an institution. This also includes the discovery of material violations of statutes and regulations and breaches of written agreements entered into by the institution and the Bank Board, the FSLIC, or other agents of the Federal Home Loan Bank Board.

In particular, special attention should be paid to the following:

- any failure to comply with conditions associated with the insurance of accounts by de novo institutions chartered in the last few years; and

- the failure of controlling parties at insured institutions to live up to contractual arrangements or agreements, such as net worth maintenance, personal guarantees, and acquisitions/assistance agreements with the FSLIC.

When the Principal Supervisory Agent receives an interim report of any failure to live up to de novo conditions or contractual agreements, including personal guarantees, the Principal Supervisory Agent will immediately forward five copies of the report to the Director of OES who will, in turn promptly refer copies to the Director of Enforcement, the Director of FSLIC, the General Counsel of the Board, and Chief of Staff of the Board.

Immediately upon the receipt of an interim report of failure to live up to such de novo conditions or contractual agreements, including personal guarantees, the Principal Supervisory Agent shall initiate aggressive corrective action to resolve the adverse situation and promptly report his plans, in writing, to the Director of OES with a copy to the Chief of Staff of the Bank Board.

Of course, failure to comply with de novo conditions and failure to live up to contractual agreements are not the only serious problems requiring notification of Washington offices and necessitating immediate corrective action. The Principal Supervisory Agent shall transmit a copy of all interim reports to the Director of OES, and where distribution to other Washington office officials is appropriate, it should include in the transmittal additional copies for the OES Director to make that distribution.

This memorandum constitutes a directive to all Principal Supervisory Agents which is effective immediately. Please assure that all appropriate parties to the Supervision and Examination process are advised.

FEDERAL HOME LOAN BANK BOARD

OFFICE OF EXAMINATIONS AND SUPERVISION

February 12, 1986

TO: Directors of Examinations

FROM: Francis M. Passarelli, Acting Director

SUBJECT: Interim Reports

It is important that examiners report any serious problems as soon as they become aware of them, so that we can take timely and effective supervisory action to correct them. Too often, problems that examiners uncover remain buried in examination reports until the examination is transmitted to supervision.

Examination Objectives and Procedures (EOP) Section 004-4 describes the use of interim reports. Because many serious problems have not been called to the attention of Supervisory Agents through interim reports, we have rewritten this EOP section effective immediately to make clear that Examiners-in-Charge must make a prompt interim report through the Director of Examinations to the Principal Supervisory Agent whenever an examination uncovers significant information that will affect an institution adversely.

This also includes the discovery of material violations of statutes and regulations and breaches of written agreement entered into by the institution and the Bank Board, the FSLIC, or other agents of the Federal Home Loan Bank Board.

In particular, special attention should be paid to:

- the failure to comply with conditions associated with the insurance of accounts by de novo institutions chartered in the last few years; and
- the failure of controlling parties at insured institutions to live up to contractual arrangements or agreements, such as net worth maintenance, personal guarantees, and acquisitions/assistance agreements with the FSLIC.

This EOP section is effective immediately. I know you will see that it is implemented.

A copy of the revised EOP section is attached.

Attachment

cc: Examination Staff
Supervisory Agents

SECTION: MONITORING: EXAMINATION REPORTS

SUBJECT: INTERIM EXAMINATION REPORTS

I. **INTRODUCTION**

During the course of an examination, examiners may discover the deterioration of previously serious problems and/or the development of significant new problems or weaknesses. Examiners-in-Charge are expected to use interim reports to alert Field Managers, Directors of Examinations, Supervisory Agents, and OES Assistant Directors for Regional Operations to these problems and to solicit instructions, if any, from the Director of Examinations or Supervisory Agent for the scope of the examination or additional information that should be collected. Interim reports are also appropriate at the completion of an examination in order to expedite communication with the Supervisory Agent if the normal process of examination transmittal would not be sufficiently timely to alert the Supervisory Agent to a serious problem or weakness.

II. **OBJECTIVES**

The purpose of interim reports is to provide a prompt alert to Supervisory Agents and others as to the problems that may need expeditious supervisory attention. Interim reports also:

- Provide the opportunity for Field Managers and Directors of Examination to request that the scope of the examination be expanded.
- Assist Supervisory Agents in deciding whether supervisory action should be initiated prior to the completion of an examination and whether additional specific examination procedures should be requested.
- Request Supervisory Agents to evaluate problems or weaknesses.

III. **PROCEDURES**

A. **When to Make an Interim Report**

Interim reports are mandatory in the following circumstances:

1. When, in the judgment of the Examiner-in-Charge and/or the Field Manager, significant information has come to light indicating that the institution is adversely and significantly affected. Among the problems that have been of special concern to the Board in the recent past have been:

   - The failure to comply with conditions associated with the insurance of accounts by de novo institutions chertered in the last few years;
   - the failure of controlling parties at insured institutions to live up to contractual arrangements or agreements, such as net worth maintenance, personal guarantees, and acquisitions/assistance with the FSLIC; and

- other statutory or regulatory violations, or unsafe or unsound conditions.

2. When, in the judgment of the Examiner-in-Charge and/or the Field Manager, there are additional, significant developments in a matter about which an initial interim report has been filed.

3. In response to requests from a District Director or Supervisory Agent for additional information on a matter about which an initial interim report has been filed.

4. Whenever an examination of an institution with less than $500 million in assets exceeds 30 calendar days; and whenever an examination of an institution with $500 million or more in assets exceeds 60 calendar days; additional interim reports should be filed each 30 calendar days until the completion of the examination.

Examiners-in-Charge should use their judgment; there may be other circumstances in which interim reports are appropriate.

B. Flow of Information

Interim reports may be initiated by the Examiner, the Examiner-in-Charge, or the Field Manager to the Director of Examinations, who will then communicate with the Principal Supervisory Agent.

- Oral Reports. In order to assure that interim reports are timely, initial interim reports will usually be made orally (by telephone or in person) from the Director of Examinations, or other examination staff as the Director delegates, to the Principal Supervisory Agent or delegate. If possible, the Examiner-in-Charge or other examiner most familiar with the problems should participate in the call or meeting between the Director of Examinations and the Principal Supervisory Agent. Telephone calls and meetings should be followed by a memorandum, written by the examiner or Examiner-in-Charge, summarizing the oral report.

- Written Reports. The Director of Examinations should send all written reports to the Principal Supervisory Agent who in turn will send a copy to the Director of the Office of Examinations and Supervision (to the attention of the appropriate Assistant Director for Regional Operations) with the appropriate number of copies for distribution to other Board offices in Washington.

C. Content of Reports

Interim reports should not be formal. All interim reports should, of course, identify the institution by name and docket number, identify the examination, and describe the unacceptable condition or practice. The primary concern is with prompt communication, not format.

The content of interim reports may vary from a brief outline of problems encountered to fully developed and substantiated conclusions. They may, for example: contain a description of the scope of the examination as of the date of the report; contain, as necessary, relevant financial statements, supporting data and analyses to facilitate understanding of the problem; indicate any remedial procedures utilized or planned by the institution; request guidance for proceeding with the examination; and/or make recommendations for supervisory action.

It is important that the interim report be timely. Therefore, the initial interim report should be made as soon as possible after the problem has been discovered, even if the examiner's conclusions are not yet fully developed or substantiated.

Subsequent interim reports should transmit in a timely manner all information necessary for the Supervisory Agent to take appropriate supervisory action.

IV. Supplemental Information

Instructions to Principal Supervisory Agents for their handling of interim reports are provided in a February 1986 memorandum from Chairman Edwin J. Gray, entitled "Interim Examination Reports."

SUBMITTED QUESTIONS

Senator GARN. I have no further questions at this time. We will save that for the Banking Committee. But I do have several questions, as does Senator D'Amato, which we would appreciate your responding to for the record.

Mr. GRAY. Thank you. We would be happy to comply with your request.

[The following questions were not asked at the hearing but were submitted for response for the record:]

Questions Submitted by Senator Garn

PROFITABILITY OF THRIFTS

Question: You note that while aggregate profitability has increased in the thrift induastry, there remains substantial financial problems with 15 percent of FSLIC-insured thrifts who are still operating at a loss.

Is this a normal spread in the profitability of thrifts --with a minority of poor performers simply because of bad management --or do you see some special characteristics in those thrifts which remain unprofitable?

Answer: There is unusually wide variation in the profitability of thrifts. This is caused by a variety of factors, including (a) past and current management policy, (b) management competence, and (c) differences in local economic conditions. Thus, even in 1978, when industry profitability was the best in recent years, 96 firms-- or nearly 2 1/2 percent of the industry-- were unprofitable.

There are two characteristics of firms that are currently unprofitable that stand out. The first is the group's relatively high level of non-earning assets. In the fourth quarter of 1985, on the average about 7 percent of the assets of the unprofitable portion of the industry were non-earning, about twice the ratio for the rest of the industry. The other major characteristic of the unprofitable portion of the industry is its relatively high cost of funds. On average, the unprofitable firms had a cost of funds 30 basis points higher than that of the profitable firms.

While these two characteristics stand out, there are clearly other reasons for firms to be unprofitable, such as one time write downs of bad assets, or poor management. Also, about 4 percent of the unprofitable firms were formed within the last year and thus are experiencing the high start up costs typically associated with new businesses.

NON-FEDERAL DEPOSITOR INSURANCE

Question: As we get beyond the dramatic shock of the failure of the Ohio and Maryland private insurance failures--and as thrift profitability increases, are you optimistic that we have turned the corner on these types of state-wide or widespread crises?

Answer: We feel that the potential for another crisis of the magnitude of the Ohio or Maryland situations is very small. As we understand it, most private/state insurance programs have been replaced with or are in the process of being replaced with federal insurance. As profitability increases as a result of the currently lower level of interest rates, this should help to reduce the potential further.

As you know, our current concerns focus on the asset quality problems of some institutions which were caused by imprudent, high risk lending and investment programs conducted during periods of high interest rates. We expect to continue to discover further problems of this type but we do not anticipate a massive increase in asset problems over that which we have already become aware .

As previously discussed, we feel that the adoption of our net worth, growth, and direct investment regulations have effectively eliminated the potential for huge increases in the level of risky assets being placed on institutions' books.

QUESTIONS SUBMITTED BY SENATOR D'AMATO

STAFFING INCREASES

Questions: I understand that, due to the thrift industry's attempt to recover from losses resulting from inflation and high interest rates, the Federal Home Loan Bank Board believes that there is a need to increase staffing. I hope Mr. Gray can elaborate today as to what positions he wishes to fill and how these positions will address the prevention of problems that have been experienced in the past.

Answer: The Federal Home Loan Bank Board is requesting a cumulative staff increase of 124 positions during fiscal years 1986 and 1987 in Board offices funded under Congressional budget limitations. These staff positions are needed to bolster direct support of the Federal Savings and Loan Insurance Corporation's (FSLIC's) efforts to deal with the financial problems of numerous thrift institutions whose depositors' savings it insures. Long ago, the Bank Board and the FSLIC consolidated staff support services in an effort to provide greater efficiency and economy to our operations. Consequently, the FSLIC relies upon Bank Board offices for much of its legal, accounting, data processing and other support. The staffing increases by function are as follows:

Attorneys: Legal staff workload has increased in several areas critical to the FSLIC. Our General Counsel's Office requires added resources to keep pace with supervisory acquisitions or closures of insolvent thrifts and to initiate numerous regulatory actions to prevent the default of FSLIC- insured institutions thereby reducing the size of losses to the FSLIC fund. The Office of Enforcement is greatly in need of additional personnel due to the increased supervisory and examination activity conducted by the twelve Federal Home Loan Banks. The banks' supervisory agents and examiner personnel initiate approximately 75% of the work handled by the Enforcement staff which must keep pace or a bottleneck will be created for those serious cases requiring formal enforcement action. One of the most important functions of the Office of Enforcement is to intervene early and to induce the management of FSLIC- insured institutions to comply with applicable laws and regulations so as to avoid, if possible, the need to initiate formal enforcement proceedings. Enforcement attorneys are engaged in all phases of supervisory actions including negotiations, the formulation of cease-and-desist orders and, when necessary, the removal of wrongdoing industry officials. In addition to the quantitative growth in workload, the matters handled by each attorney are increasing in complexity. The Enforcement staff must continue to provide legal opinions relative to FSLIC instigated supervisory acquisitions, conversions and other matters.

Financial Analysts and Accountants: It is necessary to increase the staff of the Office of Examinations and Supervision (OES) to ensure that it can furnish the requisite support to and coordination with the decentralized system of examinations and supervision. The OES staff is comprised primarily of persons who are financial analysts, accountants and savings institution-oriented specialists who assist the Board in formulating regulatory, supervisory, and examination policies. These individuals are directly involved in performing work that is highly technical, financially complex, and often based on little or no precedent. The greatest need for increased staffing is in the Regional supervisory groups; the accounting group to furnish automated data processing examination expertise, tax expertise, and guidance in securities filings; the policy formulation group; and the operational standards and information management group. This added staff will ensure more expeditious processing of industry applications, monitoring and reporting to the Board on serious supervisory cases, monitoring and oversight of the system of examinations and supervision and the continued development of consistent national guidelines for application of accounting principles in the savings institutions industry.

Merger and Liquidations Specialists: In addition to the above, the Administration has approved an increase of 139 positions for the FSLIC's budget which funds the Corporation's default prevention and liquidation activities. This portion of FSLIC's activities is not a part of the annual Congressional budget limitation on expenses. The majority of cases which FSLIC must now resolve involve institutions with poor-quality investments. These cases are complicated and costly to the FSLIC. Settlements involve either liquidations or financial assistance agreements which must be administered by the FSLIC over a period of several years. FSLIC's current and projected caseloads are very resource intensive and simply cannot be economically resolved without additional staff. Presently, FSLIC's personnel resources are stretched taut and thin, and the demands of the caseload are expected to continue growing throughout FY 86 and FY 87. These severe strains on the FSLIC are the result of the unprecedented incentive for many thrifts to take new risks in non-traditional investments while continuing to rely on the ultimate guarantee afforded by federal deposit insurance. Despite our continued effort to realign resources, functions, and priorities, the average number of cases that must be administered by each FSLIC case manager has risen from 5 in 1981 to 17 at present. The FSLIC expects that its mergers and acquisitions activity will experience the largest workload growth and need to nearly triple in size by FY 1987. As FSLIC cases have become larger, riddled with bad assets and subject to unknown levels of contingent claims, significantly higher levels of effort are required to market them to avoid liquidation. The overall effect of the added FSLIC positions will be the development of a staff that can cope with today's problems and be in a position to better fulfill their fiduciary duty to effectively and efficiently manage the resources of the insurance fund, maintain public confidence in the financial system, and protect insured thrift deposits.

H.R. 3838

Question: I am also interested in what the effects of the House-passed tax bill (H.R. 3838) would be on the industry.

Answer: While the Bank Board has not done a comprehensive analysis of H.R. 3838, it is clear that a number of its provisions would adversely affect the after-tax earnings of the thrift industry. The Bank Board considers it essential that thrifts build-up their capital so as to provide better protection for FSLIC. Consequently, the Board necessarily is concerned about any legislative change (tax or otherwise) which would reduce thrift earnings, for retention of earnings is an important method of building industry net worth, indeed the major way for firms having a mutual form of organization. On the other hand, the Board recognizes that a complex array of considerations must be weighed in determining tax legislation and that many of these are outside its purview. In general, therefore, it urges Congress to give appropriate weight to the need of thrifts to increase net worth when they consider tax legislation.

On one specific aspect of H.R. 3838, however, the Board has taken a strong position. This is that the provisions currently contained in Section 368(a)(3)(D)(ii), Section 382(b)(7)(B), Section 597 and part of Section 593(c) which facilitate supervisory mergers of insolvent firms should not be eliminated. As you know, the Board has a substantial backlog of unresolved problem cases. Supervisory mergers allow the Board to resolve such cases at costs significantly less than the cost of liquidation and with minimum disruption to depositors. Elimination of the cited Sections would reduce the number of potential acquirers willing to work with the Board on supervisory transactions, increase the number of liquidations of defaulted institutions and place additional stress on the FSLIC fund, which is already strained. Both President Reagan and the Bank Board, consequently, have urged retention of these provisions through 1990 in recognition of the fact that thrifts have not fully recovered from the economic conditions which prompted Congress to enact them in 1981.

NEIGHBORHOOD REINVESTMENT CORPORATION

STATEMENT OF WILLIAM A. WHITESIDE, EXECUTIVE DIRECTOR

ACCOMPANIED BY:
GEORGE KNIGHT, DEPUTY EXECUTIVE DIRECTOR
CAROL McCABE, GENERAL COUNSEL
NATHAN NICHOLS, DIRECTOR, FIELD OPERATIONS

BUDGET REQUEST

Senator GARN. Next we have the Neighborhood Reinvestment Corporation.

Bill, it is good to see you again before the subcommittee. The fiscal year 1987 budget request for the Corporation is $15,285,000, a 13.5-percent reduction from the fiscal year 1986 appropriation.

We have your prepared statement, and we will include it in full in the record. Please proceed with your opening remarks.

OPENING REMARKS OF WILLIAM A. WHITESIDE

Mr. WHITESIDE. Thank you, Mr. Chairman.

My statement is a brief one, and rather than spending a great deal of time highlighting it, I thought that I would just repeat our thanks to the committee for its confidence in this past year in enabling us to operate with the appropriation level of $17,669,000.

We want to tell you that we have used that effectively in continuing our revitalization of neighborhoods throughout the country; to emphasize the scope that we have now achieved in this modest effort, where 1 out of every 100 homes in America is in an NHS neighborhood.

Finally, to report that the reinvestment which has occurred in the NHS neighborhoods now amounts to a 35-to-1 leverage on the direct Federal appropriations that have gone into our work.

With that, I will be pleased to take your questions.

[The statement follows:]

STATEMENT OF WILLIAM A. WHITESIDE

Mr. Chairman and members of the committee, I would like to begin by thanking the committee for its confidence in our work in approving the Neighborhood Reinvestment Corporation's fiscal 1986 appropriation at $17,669,000.

That appropriation level enabled the Neighborhood Reinvestment Corporation to maintain essential training and technical services needed by the Neighborhood Housing Services [NHS] network as well as to sustain our rate of response to requests for NHS's to serve additional neighborhoods. We have been able to continue supplying existing NHS's with tools to rehabilitate undermaintained apartment buildings, turn problem properties into neighborhood assets, revitalize neighborhood commercial areas, and to help owner-builders build their own new homes and rehabilitate existing units into new homes. In addition, we have been working with the Lower East Side Mutual Housing Association demonstration in New York City to match our $1 million capital grant with $3 million in local and private resources, and we will be assisting two NHS's in developing the capacity to construct tracts of new homes for lower income families on cleared land in or adjacent to NHS neighborhoods.

The growing NHS network, despite increasingly tight local resources, continues to be unparalleled in its ability to bring about positive neighborhood change through the implementation of systematic neighborhood revitalization strategies. These strategies are systematically bringing about the long-term stabilization of these neighborhoods without changing their fundamental socio-economic character. The NHS network represents a rebirth of pride, hope, and self-help—all of which are crucial elements of healthy neighborhoods of choice.

It is a bit startling to note that this "small is beautiful" approach now includes 1 out of every 100 homes in America. The 207 active NHS neighborhoods and the 34 neighborhoods which through NHS's assistance have achieved substantial self-reliance, contain 880,000 housing units, 1.1 percent of the Nation's housing stock.

It appears that the NHS network is making a not insubstantial contribution toward the results envisioned by the President's Commission on Housing—April 1982—which noted, "Continued maintenance and upgrading of housing quality are also important to the supply of housing because they help prevent losses from the inventory. Reinvestment activity which creates more units or which extends the life of existing units enhances the neighborhoods in which the units are located, creating value and providing a further economic rationale for neighboorhood housing preservation."

Over 2.8 million Americans reside in these 241 neighborhoods. Their population is 36 percent black and 10 percent Hispanic, though the Nation's population is 12 percent black and 7 percent Hispanic. Of the Nation's households, 4 percent are female headed, while 19 percent of NHS neighborhood households are female headed.

The median income of NHS households is 72 percent of the city's median. An analysis of the Neighborhood Housing Services of America [NHSA] secondary market loan portfolio shows that the average family income of the borrowers whose NHS loans were sold to NHSA was $12,160. A comparison of average borrower family incomes in selected NHS cities further showed these incomes to range from 43 percent (Baltimore) to 96 percent (Washington, DC) of 1980 city medians, and from 31 percent to 66 percent of the respective SMSA's.

NHS programs have provided direct housing rehabilitation, construction monitoring, financial counseling and/or direct loans or loan referral assistance to over 250,000 neighborhood residents; and apartment improvement programs [AIP's] have directly effected the rehabilitation of more than 16,000 housing units. Together, using every human and financial resource available to them—including hundreds of thousands of volunteer hours, business community leadership and budgetary support, and public sector programs and revolving loan fund support—the NHS network—including AIP's and the Mutual Housing Association demonstration—has sparked over $3.5 billion in neighborhood reinvestment activity. This is projected to grow to $4.4 billion by the end of fiscal 1986.

The Neighborhood Reinvestment Corporation has facilitated the initial organization of these programs in 140 municipalities, assisted in expanding their efforts to 101 additional neighborhoods, and provided the seed grants to leverage over $200 million in local public and private resources in direct support of NHS's work. Even more importantly, Neighborhood Reinvestment has ensured the strength and viability of these neighborhood corporations by helping them to adjust to ever-changing economic and fund-raising environments, and by providing the training, technical services, and additional programmatic tools they need to achieve their individual neighborhood goals.

Neighborhood Housing Services of America, whose operations are partially supported by grants from the Corporation, has, to date, secured social investment commitments of $22.5 million in support of the secondary market for NHS revolving loan funds. By the end of 1985, NHSA had purchased 1,778 NHS loans, replenishing local loan funds by a total of $18.2 million. In addition, through the provision of fund-raising training and joint fund-raising campaigns, NHSA assisted 81 NHS's in significantly broadening their bases of private, business community support of their local operations.

The cumulative $4.4 billion in reinvestment which will have been generated in NHS neighborhoods by the end of fiscal 1986 will result from the cumulative expenditure of $126,661,000 in federally appropriated funds. This is a ratio of $35 for every $1 of direct Federal expenditure.

The Corporation's budget request for fiscal 1987 is $15,285,000. This amount represents a 13.5-percent decrease in our appropriated funding for fiscal 1986, and when reductions in other sources of funds are considered, a total reduction of 15.5 percent in all sources of funds is anticipated. A table showing sources and uses of funds for fiscal years 1982 to 1987 (proposed) follows.

These are challenging and difficult times, perhaps more so in lower income neighborhoods than for the rest of the Nation. However, as millions of hard-working families are struggling to lead decent lives in safe and healthy neighborhoods, our Nation is also struggling to live within its means. We recognize that your committee is faced with an enormous challenge of selecting the most productive and efficient efforts, in order to avoid arbitrary across-the-board cuts, and we will cooperate in every way to help you achieve this goal.

We shall continue to carry out our work in the most cost-efficient and effective manner; however, the requested lower level of funding does necessitate planned reductions in staffing and program goals. In addition to reducing our staff by 16 full-time equivalent positions—8 percent—it will be necessary to decrease our provision of programmatic components to NHS's, reduce the number of program reviews, and forego the biannual NHS Leadership Conference, which would have been held in fiscal 1987. We will also need to forego new NHS insurance industry full partnerships and Mutual Housing Association initiatives, and carefully prioritize requests for intensive-effort technical services in consideration of the resources available to us.

Achieving the level of program goals proposed in table 7 of the budget justification will require a reduction in the grant amounts provided with each individual undertaking. This will require that our services be limited to those communities which can demonstrate sufficient local leveraging of our reduced level of grants to achieve the desired purposes.

Thank you for the opportunity to present this testimony. I will be pleased to answer your questions on our work and our budget request.

NEIGHBORHOOD REINVESTMENT CORPORATION
Sources and Uses of Funds - All Sources of Funds
Fiscal Years 1982 to 1987

	Actual				Estimated	Proposed
	1982	1983	1984	1985	1986	1987
SOURCES OF FUNDS:						
Congressional Appropriations	$13,872,000	$15,512,000	$16,012,000	$15,512,000	$17,669,000	$15,285,000
Federal Home Loan Bank System	1,917,126[1]	380,596	400,000	400,000	200,000	...
Federal Reserve Board	...	400,000	400,000	400,000	200,000	...
Federal Deposit Insurance Corporation	...	200,000	...	...	...	...
Comptroller of the Currency	...	200,000	...	...	...	...
Interest Earnings and Other Revenue	1,302,466	943,048	1,185,851	1,113,000	1,071,000	800,000
Project Development	670,924	350,536	486,806	497,000	600,000	500,000
Carry Forward from Previous Year	1,158,569	487,348	413,702[2]	318,000	125,000	200,000
Deobligation of Prior Year Undisbursed Grants	...	...	152,844	191,000	...	...
TOTAL SOURCES	$18,921,085	$18,473,528	$19,051,203	$18,431,000	$19,865,000	$16,785,000
RESULTS:						
Neighborhood Reinvestment Activities						
Neighborhood Housing Services						
Starts	17	16	15	17	18	18
Neighborhoods Being Served	173	192	199	205	210	215
Cumulative Self-Reliant Neighborhoods	0	5	18	34	45	56
Apartment Improvement Program						
Starts	4	6	1	4	4	4
Neighborhoods Being Served	13	22	24	27	30	34
Major Programmatic Component Starts[3]	16	16	14	20	13	9
Neighborhood Reinvestment Operations						
Full Time Equivalent Staff[4]	226	208	197	193	206	190
Neighborhood Program Activity						
NHS Loans ($000s)	11,203	12,622	14,982	22,684	27,000	32,000
NHS Loan Sales to NHSA ($000s)	2,086	3,300	4,063	4,688	5,500	6,000
NHS Clients	19,775	37,650	48,317	60,990	75,000	80,000
Apartment Improvement Units Rehabbed	1,452	2,472	3,192	4,100	5,000	5,500
Apartment Improvement Reinvestment ($000s)	15,675	29,272	45,695	60,617	62,000	65,000

[1] Includes the sale of furniture located at 1700 G Street to Federal Home Loan Bank Board for $400,000.

[2] This figure includes a one-time adjustment to reconcile the budget carry-forward to the unrestricted fund balance of the audited FY 1984 financial statements.

[3] Major programmatic components include Problem Properties Strategies, Insurance Full Partnership, Housing Development Strategies, Energy Conservation, and Neighborhood Commercial Revitalization Strategies.

[4] This figure represents the average positions filled during the year.

EFFECTS OF REDUCTIONS

Senator GARN. Thank you.

As you know, in the years, we have always tried to keep the Corporation small, not let it expand into some large bureaucracy. I think we have been successful in doing that. However, I begin to wonder now, though, if we are not reducing the levels of assistance to the point where many of the reductions in technical and financial assistance may simply render some projects nonviable. Is that your analysis of the situation?

Mr. WHITESIDE. We have had to prioritize our activities and we have had to allow a number of NHS's to go out of business, where in earlier years, with a richer proportion of staff to NHS's, we would have been able to shore them up until they got new leadership and funding.

On the whole, the NHS's are very productive. I think that it is in the area of responding to these crisis situations, of responding to communities requesting new NHS's where we are unable to operate as effectively as in previous years.

EFFECTS OF NEW TRENDS IN THE THRIFT INDUSTRY

Senator GARN. As you are very well aware, we are experiencing a lot of dramatic changes in the structure of financial institutions. The regulatory climate is changing, as you are well aware. We went into it briefly here, the difficulties of the thrift industry. Obviously, the thrifts have always played an important role in providing private support for NHS's and for neighborhood redevelopment.

What type of effect are these trends having on your efforts?

Mr. WHITESIDE. The savings and loan problems had a significant effect. The number of savings and loans that are actively providing financial support to NHS's is down from 800 a few years ago to about 400 now. It doesn't represent a lack of interest in NHS, it represents the fact that most of the missing 400 are no longer in existence, they have been merged into other S&L's.

The support level from banks has held up and there continues to be about 1,000 banks across the country supporting NHS's. There are several kinds of support that financial institutions offer. They make charitable contributions for NHS operating budgets. Their executives serve on NHS boards and committees and provide their business knowhow to help the program. They also do business in the neighborhood.

We have found no significant falloff in the availability of business leaders to be active on NHS boards, but I must say that I have concerns for today, and even more so for the future as the shape of the industry changes, as to the availability of financial services in older and poorer neighborhoods.

I think there is a strong trend toward the upscale market, a strong movement of mortgage origination into mortgage banking firms. The neighborhood banker, the neighborhood savings and loan, are probably moving toward being endangered species. At some time in the future, we are going to have to give careful attention to that problem.

As you know, our tiny resources are just a lever to get private resources flowing. But if there is no mechanism whereby private resources can flow, it brings on a whole range of new problems.

MUTUAL HOUSING ASSOCIATION DEMONSTRATION

Senator GARN. Last year, Congress provided $1 million for financial assistance to a mutual housing demonstration in New York City. What is the status of that project?

Mr. WHITESIDE. It is in development right now. We are actively working on the organizational development with residents of the neighborhood. We are developing a fund-raising campaign to leverage the appropriated funds with private resources. It is the most difficult neighborhood that we have ever taken on in terms of income level and general fraying of the social fabric. So it will be a very careful, methodical development process to get the kind of leadership that we need, and it will take the rest of the year to get into operation, and perhaps beyond.

Senator GARN. What about the Baltimore Mutual?

Mr. WHITESIDE. It is moving along very nicely. The interior roads are under construction. They expect by about the end of March to get their next 16 units under construction, which will bring the total to 49 units there.

With the acceptance of applications for this 49-unit group, we were pleased to see that about half of the families will be below 80 percent of area median income as targeted by the NHS, and only about a quarter above 100 percent of median income.

In the first section the association developed, the participants in the process participated as volunteers, and as they were not selected by income, they are at the higher end of member incomes but in the association's later selections of members, they have brought the income mix into the ballpark.

PROJECTED LEVEL OF NHS DEVELOPMENT STARTS

Senator GARN. The table on page 5 of your statement indicates that 18 new neighborhood housing service starts will be undertaken in fiscal year 1987, despite the 8-percent reduction in staffing levels.

Given your concerns over thinning out services to existing NHS's, do you feel that maintaining this level of new starts is advisable with your budgetary constraints?

Mr. WHITESIDE. We have always tried to maintain a reasonable balance between responding to existing NHS's for assistance in expanding to adjacent neighborhoods, responding to additional cities that would like an NHS, and the responsibility to provide technical assistance and training to the existing programs, to help them as they run into problems.

The proposed balance seems to us to be a healthy one. It would only allow five or six new cities to be taken on. It would allow us to respond to a dozen or so NHS's that are expanding to additional neighborhoods because they have finished work in an earlier neighborhood. In the latter case, the NHS needs a neutral to help with the developmental process, to bring the new residents in with a feeling of authorship and ownership, without the earlier neighborhood residents feeling that they have lost their say in things. Our services are in considerable demand for this training role.

Senator GARN. Your fiscal year 1987 request of $15.3 million is a reduction of $2.4 million. Even after adjusting for the $1 million mutual housing item, it represents an 8-percent reduction, as I mentioned before. I assume that this reduction was not contemplated in your original request of OMB.

Mr. WHITESIDE. No, sir, it was not.

Senator GARN. What was the level of direct appropriation that you sought?

Mr. WHITESIDE. We made a request for an enhanced level of $26,461,000, an intermediate level of $22 million, and the current level of $18,375,000 would allow for minimal inflation.

Senator GARN. Could you provide a detailed breakdown of your request to OMB to the subcommittee?

Mr. WHITESIDE. Yes, sir.

[The information follows:]

FISCAL YEAR 1987 OMB BUDGET SUBMISSION

The attached table, taken from our September 1, 1985, OMB submission, provides a breakdown of our multilevel funding request for fiscal 1987. The slight variances in the figures from the budget justification pertaining to fiscal years 1985 and 1986 reflect more current information on interest earnings, deobligations, and project development income.

NEIGHBORHOOD REINVESTMENT CORPORATION FUNDING LEVELS—FISCAL YEARS 1985, 1986, AND 1987

			1987		
	1985 estimate	1986 projected	Current request	Intermediate request	Enhanced request
Congressional appropriations	$15,512,000	[1] $17,669,000	$18,375,000	$22,050,000	$26,461,000
Board member agencies	$800,000	$400,000			
Interest and other income	$1,094,000	$972,000	$1,002,000	$1,158,125	$1,345,600
Carry forward	$317,904	$300,000	$200,000	$200,000	$200,000
Deobligation	$131,583				
Project development	$438,000	$600,000	$600,000	$625,000	$720,000
Total	$18,293,487	$19,941,000	$20,177,000	$24,033.125	$28,726,600
Full-time equivalent staff	207	206	206	227	250

[1] Level approved by House Appropriation subcommittee.

SUPPORT OF BOARD MEMBER AGENCIES

Senator GARN. In addition to your direct appropriation, your agency has received funding through the Federal Home Loan Bank Board and the Federal Reserve Board. Both of these agencies are proposing to terminate their contribution, following the 50-percent reduction made in fiscal year 1986.

What impact do these reductions have on the program as well as their commitment to cooperation and policies assistance?

Mr. WHITESIDE. There will be a dollar impact, of course, with the removal of those funds in this year. It does not, however, represent a reduction in interest or involvement on the part of the agencies which are represented on our board.

The Federal Reserve, for instance, during the past year has gone out of its way to remind the Federal Reserve Banks of their support of our work and encourage them to continue or increase their involvement in NHS programs.

The reduction in support has been a process extending over several years. The Federal Home Loan Bank was the only agency providing support to us many years ago. As they ran into shark-infested waters, they suggested that this support ought to be shared with the other agencies.

For a time, the FDIC, Comptroller, and the Federal Reserve joined in the sharing. Then when it came down to only the Federal Reserve and the Federal Home Loan Banks, they determined that they should phase it out altogether and directed us in our budget request to OMB—each year, as we have gone through this—to suggest that the reduced revenue should be substituted for by appropriated funds.

There, to give us time to adapt, if these were not a substitution of appropriated funds, they phased it down over a 3-year period to $800,000, $400,000, and $200,000.

Senator GARN. Thank you, Bill.

I certainly appreciate the job that you do. Recently, I had the opportunity to speak at a fund raiser for our NHS in Salt Lake City. We have moved from the Liberty Park area over to the northwest part of the city. It continues to go well, with a lot of good results.

Senator Abdnor, do you have any questions?

Senator ABDNOR. No, thank you, Mr. Chairman.

I am sorry to be coming in for the wrapup, but that is what happens when you go to three subcommittee meetings.

Senator GARN. As I said earlier, when you are the chairman, you miss all the others, you don't even make any attempt to show up.

Senator ABDNOR. I will have that happening to me soon with my subcommittee, I will have to miss a lot of others. To try to explain that sometimes is difficult.

SUBMITTED QUESTIONS

Senator GARN. We will be submitting questions for the record that I would like you to answer.

Thank you very much. We appreciate your being here today.

[The following questions were not asked at the hearing but were submitted for response for the record:]

QUESTIONS SUBMITTED BY SENATOR WEICKER

Neighborhood Self-Reliance

Question: Your budget justification indicates that 34 NHS neighborhoods are substantially self-reliant. I understand that this includes three neighborhoods in Connecticut. What is meant by "self-reliant?" What ensures that neighborhoods remain stable after NHS leaves?

Answer: Substantially self-reliant neighborhoods, as we have learned about them from our initial 34, are characterized by two major ingredients:

- Neighborhood people -- neighborhood residents who have formally or informally come together, and through NHS' work in their community have learned about the assets and potential future problems or vulnerabilities of their neighborhood. These formal and informal "leaders" feel proud and in charge of their neighborhood's future and able to manage without the special intervention of an NHS.
- A stable neighborhood environment where the significant problems or weaknesses as they relate to the neighborhood's physical condition, image and real estate market have been addressed.

No neighborhood is ever perfect and our "substantially self-reliant" concept acknowledges the ongoing challenge and some residue of problems and vulnerabilities through the modifier "substantial." The difference between healthy and unhealthy neighborhoods, we have found, is not totally in the major presence or absence of problems, but after addressing the neighborhood problems through NHS' intervention, in educating neighborhood leaders to be able to maintain and manage the neighborhood--including future vulnerabilities.

Determining that a neighborhood is substantially self-reliant is a local decision made by residents of the neighborhood in concert with other NHS partners. Our experience to date indicates that the process usually involves a transition or phase-down period where NHS services are gradually reduced. During this period, in situations where the process has worked most effectively, the leaders of the neighborhood and the NHS board come to an understanding of the strengths and future liabilities of the neighborhood. While the primary way in which the neighborhood is maintained after NHS is the voluntary association or informal network of neighborhood leaders that has been developed during the NHS intervention period, the NHS may also need to provide some modest level of mutually agreed upon residual services.

Neighborhood Reinvestment has undertaken a number of case studies with NHS neighborhoods approaching self-reliance to continue our learning about this important process. (A series of case histories and our booklet on self-reliance, "A Celebration of People and Places," and an educational videotape on the subject were developed for our 1985 Leadership Conference and are available to all NHSs.)

QUESTIONS SUBMITTED BY SENATOR D'AMATO

Progress of Mutual Housing Association Demonstration

Question: Last year, Congress appropriated $17.6 million for the Neighborhood Reinvestment Corporation. A matching program for the Lower East Side Mutual Housing Association demonstration in New York City also was included by the Congress. I am hoping today to hear a report on the status of this demonstration; what the expected outcome is; and how it compares to other demonstration programs assisted by the Neighborhood Reinvestment Corporation.

Answer: The effort to develop a Mutual Housing Association which will serve the Lower East Side of Manhattan is moving ahead well. One million dollars of the Corporation's FY 1986 appropriation is committed to this activity, and work is proceeding to obtain a match of approximately $3 million in local private and public contributions.

The National Mutual Housing Association demonstration was undertaken with the encouragement of Congress through language in the 1980 Housing and Community Development Act. Reports on progress in the demonstration were submitted to the Congress on September 30, 1981 and March 1985. A further report is planned for the Spring of 1989.

The first demonstration site was Baltimore, Maryland, where a Mutual Housing Association was formed and construction of a complex of townhouses was undertaken at The Alameda and Cold Spring Lane in the Govans neighborhood. At this date, 33 units have been constructed and occupied, and an additional 16 units are scheduled to begin construction in the Spring of 1986.

Results to date in Baltimore in the demonstration of this housing concept are very promising:

- o A publicly-accountable, nonprofit corporation has been formed which is a partnership of residents, households waiting to become residents, representatives of the surrounding neighborhood, and representatives of local government and of the business community.
- o The Association owns the housing it produces, but the residents participate in the financing through a refundable capital fee, participate in the Association's management through representation on its board of directors and committees, and display a psychological "pride of ownership" unprecedented in publicly assisted housing.
- o The Association is successfully developing housing, utilizing capital grants and low interest loans from public sources, as well as private contributions to keep monthly payments by residents to between $265 and $380 per month (exclusive of utilities), and, with considerable input from residents, is successfully managing the properties.

The demonstration in the Lower East Side will serve a more deteriorated, lower-income neighborhood characterized by multifamily structures, and will undertake the rehabilitation of vacant properties. This demonstration is a significant effort to preserve decent housing, affordable to lower-income neighborhood residents, in a neighborhood subject to the twin demons of severe blight and runaway rent levels on privately rehabilitated dwellings. The performance of the Mutual Housing Association model in a neighborhood with problems of this kind will be extremely significant in evaluating its potential for the future.

Work is currently going forward in the neighborhood to familiarize the community with the Mutual Housing Association's potential and to enlist participants in a series of workshops which, given strong community support, will lead to organization of a Lower East Side Mutual Housing Association as a state-chartered nonprofit corporation. At the same time discussions are underway with the City and the Community Board regarding identification of vacant, city-owned buildings which could be acquired by the Association for rehabilitation.

QUESTIONS SUBMITTED BY SENATOR LEAHY

Impact of CDBG Reductions on Rural NHS Programs

Question: Your statement last year highlighted some of the unique and successful undertakings of rural NHS programs. Have you undertaken any new rural NHS developments? State-administered small cities grant programs support rural NHS efforts like those in Vermont. Will recommended reductions in the Community Development Block Grant program impact existing and new efforts?

Answer: Our experience with rural and small city environments continues to demonstrate that the NHS approach can be very successfully adapted to help meet the revitalization needs of these settings. The local natural strengths of a strong spirit of voluntarism, multi-faceted leadership and discreet, workable impact areas have proved to be major assets in the work of six operating rural/small city NHSs around the country.

The major challenge for the NHSs continues to be resource development. They all receive a majority of their operating and revolving loan funding from public sources, primarily in the form of the state-administered small cities CDBG program. It is clear that significant reductions in the Community Development Block Grant program would adversely impact the existing and any new rural/small cities NHS efforts. The private sector presence in these areas is sparce and the prospects of private funding making up for a loss of public funding are bleak.

We are now in the process of embarking on a new rural/small cities NHS development in Dimmit County, Texas. Dimmit County is located in southwest Texas and has a population of 11,367, of which 83% live in small towns. The County population is 78% Hispanic and the median income is $10,400. In cooperation with the State, County and City governments, we are working to develop an NHS that will serve the towns of Carrizo Springs, Asherton and Big Wells. A majority of the 3,543 housing units in these towns is in substandard condition. Through small cities grants, the State of Texas has made the commitment to provide an initial $500,000 for the NHS loan fund and a combination of State, County and City funds has been committed to provide an initial $70,000 for first-year operating costs. The three small lending institutions in the County have committed to provide $30,000 to underwrite the balance of the operating budget.

We are learning a great deal from our work with rural/small cities communities. If public funding continues to be available to these areas, it will spur the local dedication of the people and their tradition of neighbor helping neighbor that are proving to be the vital ingredients that can shape NHS into a relevant, effective tool for rural America.

NHS programs in Vermont are making excellent progress. The East Valley NHS, with considerable neighborhood management experience gained through its work in East Valley, is shifting its focus to service the more critical needs in Randolph Village. The Barre NHS partnership has achieved a remarkable turn-around in the Westside neighborhood, and is exploring ways in which to transfer their skills and experiences to other needy communities. In addition, after several months of developmental and organizational work, the Rutland West Consortium NHS has recently elected its first board of directors and hired an executive director. Service delivery will begin immediately upon completion of board and staff training, and the orientation of committees in each of the four communities. The future of these programs will undoubtedly be affected by further cutbacks in small cities CDBG funds, which, in the State of Vermont, have already been reduced from $5.6 million in fiscal 1985 to $4.3 million this year.

Questions Submitted by Senator Proxmire

Potential Effects of Reductions in Federal Housing and Community Development Programs

Question: Would you comment on the potential effects of: a) cutbacks in federal housing and community development programs that may result from Gramm-Rudman and from the Administration's proposed budget for fiscal year 1987; b) continued high federal budget deficits; and c) ongoing changes in the structure of the nation's financial industry.

Answer: The potential effects on the Neighborhood Reinvestment Corporation's work of cutbacks in federal housing and community development programs that may result from Gramm-Rudman and the Administration's proposed budget for fiscal year 1987 are in the nature of a reduction of resources at the local level. Neighborhood Housing Services utilize CDBG resources as sources of capital for their revolving loan funds, the acquisition and rehabilitation of blighting structures that can be turned into community assets, and in some cases as a supplement to private funds for the NHS operating budget. In addition, cities typically utilize CDBG funds for necessary neighborhood capital improvements. More limited resources for these purposes will slow the processes of neighborhood revitalization. Cuts in other federal housing programs will have less impact, because previous cuts in programs which could be accessed by local NHSs have reduced these resources to negligible proportions.

We should point out that the reduction in the grants line which was part of our budget justification, was proposed prior to our knowledge of the proposed levels of CDBG cuts. With the benefit of hindsight, it seems evident that we will not be able to achieve the level of goals projected if our grants are reduced simultaneously with drastic reductions in CDBG funds.

With regard to the effects of continued high federal budget deficits on the Corporation's work, it is our fervent hope that the Congress, in cooperation with the Administration, is successful in reaching its budget targets for fiscal 1987 through reductions in the least essential and least productive efforts, and can avoid the arbitrary across-the-board cuts envisaged in Gramm-Rudman.

The ongoing changes in the nation's financial industry are of concern to us. Already, the ills of the thrift industry have reduced the number of savings and loans and savings banks supporting NHSs from approximately 800 to approximately 400. Despite these changes, NHSs continue to have many savings executives serve as volunteer board and committee members. While the number of commercial banks supporting NHSs remains at around 1,000, we are concerned at the steady increase in neighborhood branch closings, and the inexorable shift of the loan origination function to mortgage bankers. As local financial institutions become an endangered species, we have to wonder what the neighborhood financial intermediaries of the future will be.

SUBCOMMITTEE RECESS

Senator GARN. The subcommittee will stand in recess until Tuesday, February 25, at 10 a.m., in room SD–124, when we will hear testimony from the National Credit Union Administration, the Department of Treasury's Office of Revenue Sharing, and the Office of Science and Technology Policy.

The subcommittee stands in recess.

[Whereupon, at 11:25 a.m. Thursday, February 20, the subcommittee was recessed to reconvene at 10 a.m. Tuesday, February 25.]

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT-INDEPENDENT AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1987

WEDNESDAY, MARCH 19, 1986

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10 a.m., in room SD–124, Dirksen Senate Office Building, Hon. Jake Garn (chairman) presiding.

Present: Senators Garn, Lautenberg, and D'Amato.

VETERANS ADMINISTRATION

STATEMENT OF EVERETT ALVAREZ, JR., ACTING ADMINISTRATOR

ACCOMPANIED BY:

- ARTHUR S. HAMERSCHLAG, ACTING CHIEF MEMORIAL AFFAIRS DIRECTOR
- RAYMOND J. VOGEL, CHIEF BENEFITS DIRECTOR
- DONALD L. IVERS, GENERAL COUNSEL
- CONRAD R. HOFFMAN, DIRECTOR, OFFICE OF BUDGET AND FINANCE (CONTROLLER)
- JOHN W. DITZLER, M.D., CHIEF MEDICAL DIRECTOR
- SUSAN LIVINGSTONE, ASSOCIATE DEPUTY ADMINISTRATOR FOR MANAGEMENT

OPENING REMARKS

Senator GARN. Mr. Alvarez, I am happy to welcome you before the subcommittee this morning. I would like to commend the entire VA system for the outstanding service that the system is providing, as well as the excellent medical research that is being conducted within its facilities.

I am also sure that the VA system can be structured to be more efficient in these times of high budget deficit while still providing the level of service that has come to be expected of the Nation's largest medical care delivery system. I am looking to the VA for innovative new ideas to meet the challenge we are facing.

There were at the end of fiscal year 1985, about 27.8 million veterans, 49.4 million family members of living veterans, and 2.1 million survivors of deceased veterans. Thus, 79.3 million, or about one-third of the U.S. population, are potential recipients of veterans benefits provided by the Federal Government.

VA's funding request of approximately $25.6 billion is composed of $15.1 billion in benefits, $9.4 billion in medical programs, $408 million in construction programs, and $763 million for general operating expenses. This request represents a decrease of $228 million over the adjusted fiscal year 1986 appropriations level. This does not include a $363 million supplemental request for fiscal year 1986. The budget also assumes a decrease of 7,557 positions below the estimated fiscal year 1986 level.

Mr. Alvarez, if you would please summarize your opening statement. We will place your entire statement in the record and the statements of your Directors will also be included in the record. Please proceed.

ACTING ADMINISTRATOR'S OPENING STATEMENT

Mr. ALVAREZ. Mr. Chairman, we are grateful for the opportunity to appear before you today to discuss the VA 1987 budget. As we are all aware, Public Law 99–177 requires a balanced budget by 1991. Actions to achieve this long-range goal are already being implemented by the VA in 1986.

As you also know, the 1987 package is formulated to meet the deficit target of $144 billion without raising taxes. The fiscal year 1987 budget request reflects the VA share of that effort, which is $26.6 billion.

In this budget you will note that the medical care budget reflects a shift in long-term care policy calling for increased resources for non-institutional care and for VA-supported State and community nursing home care programs.

Within our medical centers, our budget reflects greater emphasis on conversion to nursing home beds. Agencywide, this budget reflects our continuing emphasis on modernization, a program which is the key to our future operations.

Overall this can be described as a tough budget. But for the Veterans Administration that means that we have to get the most for the taxpayer's dollar. We are fully aware that our VA programs fulfill real needs, and our obligation to carry out effective programs has not diminished in any way. We will continue to provide quality care to our veterans, who deserve no less.

I believe it is important to point out that the VA has once again been treated fairly in the overall distribution of resources. We are pleased that the Congress and the President have exempted three major VA programs from some of the effects of Gramm-Rudman.

Our compensation and pensions are entirely exempt from sequestering, and our medical care account has been partially protected. We are convinced that these exemptions represent a strong commitment from both you and the President to provide to America's veterans the benefits that they have earned.

At this time I will address some of the effects of the fiscal year 1986 sequestering. Public Law 99–177 will affect readjustment benefits, burial benefits, and insurance in fiscal year 1986. Our education payments under the GI bill and payments for vocational rehabilitation and dependents' educational assistance will decrease. Plot allowances and burial benefits will also be reduced. The VA's insurance program will be affected by cancellation of the previously scheduled loan interest rate reduction.

We are considering a variety of options to achieve necessary reductions in outlays. In addition to attrition of personnel, certain reprogramming actions should help. We plan to reduce cash awards and employee travel; we have implemented a hiring freeze; and we are carefully managing our nonpayroll categories. These steps will be closely monitored within the agency. In doing so, we intend to redistribute any savings realized to those offices having the most difficulty absorbing the reductions.

A proposed reprogramming is anticipated within DVB–GOE and within GOE, general administration. Certain benefits accounts will also be considered for reprogramming, as well as some medical and construction activities. We believe that these actions will enable us to meet the required reductions and still maintain a high level of service to our Nation's veterans.

FISCAL YEAR 1987 REQUEST HIGHLIGHTED

I will now highlight the VA's fiscal year 1987 request, which calls for $26.6 billion in new budget authority. The largest portion of the budget request continues to be for benefits programs, which at $15.4 billion constitutes 59 percent of the total VA budget.

Proposed legislation in this area calls for a 3.7-percent cost-of-living increase for compensation and pension recipients to be effective December 1, 1986. The medical care budget of $9.1 billion shows a decline of $44 million from the 1986 level, which was adjusted to reflect the impact of Public Law 99–177. Medical care employment is projected to decline 7,443 from the 1986 level of 192,635.

Even with these reductions, the budget will provide for treatment of approximately 1.4 million inpatients and over 18.6 million outpatient visits. The VA will continue to meet the demand for quality medical care for veterans who are service connected or who have low incomes.

MEANS TEST

Our ability to meet that demand effectively and equitably requires some refinement of eligibility criteria which will better target benefits and resources to service-connected and low-income veterans. We have, therefore, proposed legislation which would remove age as a determinant in eligibility for medical care and established income guidelines to measure financial need. As a result, use of the VA medical system would be restricted for most non-service-connected veterans whose income exceeds twice the VA pension level.

THIRD-PARTY REIMBURSEMENTS

Another legislative proposal would authorize recovery from private insurance carriers in the case of insured veterans with non-service-connected disabilities. Reimbursements for 1987 are estimated at $187.5 million. We are aware that legislation which addresses both these issues is currently pending in the Congress.

The general operating expenses appropriation request is for $762.6 million and 18,312 average employment to operate the Department of Veterans' Benefits, the Department of Memorial Affairs, and various staff functions in the central office.

A modernization of the benefits delivery system, which was conceived last year, will have its first full year of implementation in 1987. The Department of Veterans' Benefits will take over responsibility for ADP development for their programs, and the corresponding 362 positions will be transferred to DVB from the Office of Data Management and Telecommunications.

We have also included a proposal to close the St. Paul insurance center, transferring its workload to Philadelphia. When completed in 1988, the transfer should result in recurring annual savings of $1.3 million.

CONSTRUCTION

The 1987 request for the two construction appropriations totals $408.2 million. A program level of $465.2 million will be supported with $57 million available from the previous appropriations. Included in the request are 10 major projects of medical facilities. These projects range from full funding of replacements at Baltimore and Augusta to initial funding for modernization at Dayton and North Chicago.

The construction program continues to emphasize correction of life-safety and other code deficiencies. This budget also contains a proposal to transfer to the Chief Medical Director responsibility for the agency's construction program. To accomplish the reorganization, 73 positions would be moved from the MAMOE appropriation to the Office of Facilities, formerly the Office of Construction, which is under the Construction minor appropriation.

Mr. Chairman, this concludes my statement. My staff and I will be pleased to answer your questions at this time.

Senator GARN. Thank you, Mr. Alvarez.

[The statement follows:]

STATEMENT OF THE HONORABLE EVERETT ALVAREZ, JR.
ACTING ADMINISTRATOR OF VETERANS AFFAIRS

BEFORE THE
SUBCOMMITTEE ON HUD-INDEPENDENT AGENCIES
OF THE
SENATE COMMITTEE ON APPROPRIATIONS
MARCH 19, 1986

Thank you Mr. Chairman. Mr. Chairman and Members of the Committee. I am grateful for the opportunity to appear before you today to discuss the Veterans Administration 1987 budget.

As you are fully aware, the passage of PL 99-177, or the Gramm-Rudman-Hollings amendment, requires a balanced budget by 1991 with actions to be taken beginning in 1986 to achieve this long range balanced budget goal. I would like to point out that the Veterans Administration, in relation to other government activities, has again been treated fairly in the overall distribution of budgetary resources. The Compensation and Pensions programs are totally exempt from sequestration. The Medical Care account has been partially exempted from the full effects of sequestration.

With respect to the 1986 sequestration of administrative programs, we are considering a variety of options to achieve necessary outlay reductions. These options include staff reductions which could be pursued through attrition and reprogramming actions to avoid furloughs. A hiring freeze has been implemented. In addition, we are being more conservative in our managing of the agency's non-personnel compensation funding categories. It is our objective to redistribute any savings realized from these efforts to offices which are having difficulty in absorbing the reduction. A reprogramming between DVB GOE subactivities and GOE General Administration is anticipated and certain benefits accounts will also be candidates for reprogramming between sub-activities. Reprogrammings may also be proposed within the medical and construction activities. At this time, we believe that, as a result of these actions, we will be able to meet the reductions required by PL 99-177 while maintaining a continued high quality of service to our nation's veterans.

I will now summarize the VA's 1987 request.

This year's budget calls for $26.6 billion in new budget authority. This total comprises $25.6 billion appropriation request, $174.9 million for proposed legislation, and $801 million in permanent authorizations. The budget proposes two major reforms that would better target Veterans Administration benefits and resources to service-connected veterans and to low-income veterans. First, a comprehensive reform of medical care eligibility would sustain quality care, while maintaining medical care at no charge to veterans with service-connected disabilities and lower-incomes. Second, the budget proposes to restructure and enhance long-term care policy to make greater use of VA-sponsored State and community nursing home care programs and non-institutional programs.

The following highlights the request for major accounts.

Compensation

The 1987 appropriation request for this account is $10.4 billion. This dollar amount is based upon an estimated veteran caseload of 2.2 million and a survivor caseload of 326 thousand. This caseload reflects a reduction of 14,500 veterans and 6,300 survivors from the 1986 level. The funding level includes the full year impact of a 3.1 percent cost of living increase that was effective on December 1, 1985. A program supplemental of $272 million is requested to support this cost of living increase in 1986.

Legislation is being proposed to provide for a 3.7% cost-of-living increase in compensation benefits, the same as the increase proposed for social security, effective with the January 1987 payments. Allowances provided to compensate beneficiaries for dependents and clothing would be adjusted similarly. The number of veterans and survivors of deceased veterans receiving compensation benefits is expected to decline from 2.6 million in 1985 to 2.5 million by 1989. However, because of the proposed cost-of-living adjustment, outlays for compensation benefits are estimated to increase by $305.5 million from $10.4 billion in 1986 to $10.7 billion in 1987.

Pensions

Pensions are provided to low income, wartime-service veterans --combat and non-combat veterans alike--who are 65 and older, or who have become permanently and totally disabled subsequent to their military service. Although the number of veterans age 65 and over is expected to double during the 1980's, the number of pension recipients is expected to decline because veterans over age 65 increasingly have higher incomes.

A 3.1% cost-of-living increase became effective with the January 1986 payments. The 1987 request provides resources for the full year cost of this increase and the estimated impact of a 3.7 percent cost-of-living increase, effective with the January 1987 payments.

The 1987 appropriation request for this program is $3.8 billion, approximately $10 million below the 1986 current estimate. This reduction reflects the continued decline in the pensions caseload. We estimate that veterans caseload will decline by approximately 34 thousand to a new level of 634 thousand in 1987, and that the survivors caseload will also decline by 63 thousand to a new level of 634 thousand. The dollar reductions resulting from the decrease in workload is partially offset by the cost-of-living increases included in the budget request.

Burial Benefits and Miscellaneous Assistance

Under existing legislation, an appropriation request of $134.4 million is requested to support operations in 1987. The increase reflects a higher mortality rate of the aging veteran population as well as a return to the Title 38 benefit payments which were reduced in 1986 in order to achieve the savings required by sequestration of funds.

In addition, legislation will be proposed making the eligibility requirements for the burial plot allowance the same as those for the basic burial allowance. These benefits would be paid to veterans with a service-connected disability, veterans in receipt of a pension, and certain other categories of war-time veterans. Enactment of this legislation would save approximately $31.2 million in 1987.

Readjustment Benefits

An appropriation of $741.2 million is requested in 1987. This funding level reflects a decrease of $136.4 million from the current 1986 funding level. This decrease is due to a decline in trainees as more veterans either pass the 10 year delimiting date or exhaust their education benefits.

In 1986, a program supplemental of $91 million is requested to support higher education, training and specially adapted housing costs than can be supported by the 1986 appropriation. It should be noted that the $91 million program supplemental is required to support estimated operations of the current education program. This supplemental is not requested to offset the impact of sequestration on this program.

As a recruiting incentive, the Department of Defense Authorization Act of 1984 established a test education program with a larger Federal contribution for individuals who enter the military between July 1985 and July 1988. An individual who chooses to enroll upon entering the military will have $100 deducted from his or her monthly pay for 12 months. Upon completion of 3 years service, the individual is entitled to a basic monthly educational assistance rate of $300 per month for up to 3 years, to be paid for with funds appropriated to the VA. Because the Secretary of Defense has determined that this program is unnecessary for recruitment, the administration is proposing legislation to close the Peacetime Veterans GI Bill to new enrollees as of October 1, 1986. The Post-Vietnam Education Assistance program, which matches servicepersons' contributions at a 2 for 1 rate, would be reopened to new enrollees on October 1, 1986. Although the Veterans Administration administers this program for the Department of Defense and the legislation is being proposed by DOD, the impact is included in the Readjustment Benefits and Post Vietnam Education Assistance program budget requests.

Loan Guaranty

In addition to mortagage assistance available to veterans through the Federal Housing Authority (FHA) insurance programs, VA guaranteed and direct loan programs are expected to assist 216,000 veterans in obtaining mortgages in 1987.

The administration is proposing to change origination fees for participation in Federal credit programs. These fees would be large enough to cover servicing costs and provide reserves against future default losses. In line with this initiative, legislation is being proposed to increase the fee charged on VA-guaranteed housing loans and vendee loans from the current 1% to 2% of the mortgaged amount in 1987, increasing to 3.8% by 1990. The borrower would be able to add this amount to the mortgage. Veterans with service-connected disabilities would continue to be exempt from the fee. In 1987, it is anticipated that the 2 percent fee would reduce outlays by $131.8 million. The change would be effective October 1986.

No appropriation is requested for this account in 1987. Estimated obligations of $2.6 billion will be funded by $2.4 billion in offsetting collections, a transfer of $125 million from the Direct Loan Revolving Fund, and a $30 million decrease in unobligated balances.

General Operating Expenses

The budget request for General Operating Expenses is $763.5 million and 18,337 average employment for the operations of the Department of Veterans Benefits, the Department of Memorial Affairs, and the various staff functions of our Central Office.

The Department of Veterans Benefits (DVB) is requesting $515.5 million and 13,000 FTEE in 1987, respective increases of $46 million and 400 FTEE above 1986. The budget proposes that DVB undertake a modernization of its operations to improve cost-effectiveness, accuracy and timeliness of service delivery to veterans. Several other initiatives are included in the budget to improve the management of veterans benefits such as achieving a return on the Federal Government's investment in automated data processing equipment in the form of a decrease in the number of administrative staff, as this equipment increases staff productivity.

The 1987 budget includes $25 million for funding of a comprehensive six-year plan to modernize the benefits delivery systems for which preliminary steps were taken in 1985. Total costs between 1986 and 1991 are estimated to be $153.6 million partially offset by expected savings of $87 million and 863 FTEE. Also included as DVB increases are $13.2 million and 362 FTEE which will be transferred from the Office of Data Management and Telecommunications to place ADP development functions and responsibility with DVB. This submission also proposes to achieve greater efficiency by closing the St. Paul Insurance Center and shifting that workload to the Philadelphia Insurance Center.

The Department of Memorial Affairs is requesting $44.2 million and 1,189 FTEE in fiscal year 1987 for the management of the national cemetery system for eligible veterans, active duty military personnel, and their dependents. This is $2.3 million and 13 FTEE above the 1986 level. It is expected that total interments will increase by 2.8 percent, gravesites maintained will increase by 2.5 percent, and headstone/marker applications processed will increase 2.7 percent over 1986 levels. Over 100 national cemeteries are now open throughout the Nation. The policy goal of providing one large national cemetery per Federal region has now been attained.

In the General Administration activity, the 1987 request is $203.9 million and 4,148 FTEE which is an increase of $2.5 million and a decrease of 377 FTEE from the 1986 level. Initiatives include PAID Redesign software development ($1.5 million), two surveys of veterans ($1.1 million), transfer of functions to DVB from the Office of Data Management and Telecommunications and staff to administer proposed legislation to permit reimbursements from health insurers under certain circumstances ($1.0 million and 25 FTEE).

Medical Care

The Medical Care appropriation request for 1987 is $9.1 billion, a decrease of $43.8 million from the 1986 level. The average employment of 185,192 is a decrease of 7,443 under 1986.

The VA provides medical services, including hospital, outpatient and nursing home care to veterans by operating a nationwide medical care system. In 1987, this system will provide support for an estimated 18.6 million outpatient visits and treat 1.4 million inpatients in VA and community facilities.

The budget provides for other new or expanded initiatives such as the National Disaster Medical System (NDMS); Decentralized Hospital Computer Program (DHCP); Most Efficient Organization (MEO) Studies, Hospital Based Home Care (HBHC); Adult Day Health Care (ADHC) and Medical District Initiated Peer Review Organization Program (MEDIPRO). Facility activation resources have been provided for construction projects that are planned for completion and activation during the fiscal year. The most significant hospital activation replacement projects are Minneapolis, Minnesota and Portland, Oregon.

VA's primary health care mission is to treat veterans for their service-connected disabilities. Currently, most of the system's users are either veterans with service-connected disabilities or low-to-moderate-income veterans. However, many users with no service-related disabilities have a higher income level and should be able to defray some or all of the costs of their medical care. The administration will continue to seek enactment of its comprehensive reform of eligibility for VA medical care. This reform would allow VA to sustain quality care for the most deserving veterans - primarily those with service-connected disabilities and those without resources to defray all or part of their health care expenses.

The 1987 budget includes legislation to require a means test for both veterans over and under age 65. Exempted from this reform would be service-connected veterans and certain other special categories of veterans. This reform would restrict the use of the medical system by non-exempt veterans whose income exceeds twice the VA pension level. This proposal assures fairness of access to care for non-service connected veterans both over and under age 65. The proposal also helps assure that non-service connected veterans who have the greatest need for our service receive a higher priority.

The administration will continue to seek enactment of its proposal to require reimbursement from veteran-held private insurance plans for VA-sponsored care provided to veterans without service-connected disabilities. Health insurance premiums are currently established to cover the insured individual, regardless of veteran status and regardless of any individual veteran's choice of health care provided. Allowing the Government to recover costs would properly shift the burden of paying for VA care of veterans without service-connected disabilities from taxpayers to insurance companies and their policy holders with only minimal effects on premiums. Third party reimbursements are estimated to be $187.5 million in 1987.

In addition, the budget proposes to restructure and enhance VA's long term care policy by increasing resources for non-institutional care programs, which would enable veterans to remain at home when appropriate, and for VA-supported State and community nursing home programs, which are less costly than VA-owned nursing homes. This initiative would move toward the goal of a nursing home care provider mix on a national basis of 30% VA-owned, 40% community, and 30% State, from the current 40%, 40% and 20%, respectively.

VA-owned nursing home beds will continue to increase as previously funded construction projects are completed and excess hospital beds are identified and converted to nursing home use. In some geographic areas, situations may arise in future years that warrant constructing additional VA-owned nursing homes.

The request also provides for targeting travel funds for beneficiaries to provide only for emergency travel needs of veterans who need special transportation, such as an ambulance or a wheelchair van, to get to a VA hospital.

Medical and Prosthetic Research

The 1987 request for Medical and Prosthetic Research is $188.9 million and 4,266 FTEE, an increase of $7.8 million over 1986 and a decrease of 102 FTEE. Medical research will provide funding in heart disease, schizophrenia, spinal cord injury, diabetes, cancer, aging, alcoholism and related problems of Vietnam era veterans, former Prisoners of War and female veterans.

Rehabilitation research funding will provide significant emphasis in priority areas of prosthetics/amputations, spinal cord injury and sensory aids. Health services research will continue its efforts in management and service initiated research and begin a study on an evaluation of the VA adult day health care program.

Medical Administration and Miscellaneous Operating Expenses (MAMOE)

The 1987 request for this program is $42.7 million and 591 FTEE. These amounts reflect the phasing out of the Health Professional Scholarship Program, the transfer of funding for the Office of Facility Engineering, Planning and Construction (FEPAC) to the Construction, minor projects appropriation, the transfer of funding for the Postgraduate and Inservice Training activity (except MAMOE central office staff training) to the Medical Care appropriation, and support for a physician staffing study, uncontrollable inflation and payroll increases, and other program support.

Grants For Construction of State Extended Care Facilities

As part of the long-term care initiative, budget authority of $42.4 million is requested for 1987 for grants to States for the construction or repair of State homes for the care of aging veterans. This increase of $21.6 million is more than double the 1986 level and will enable VA to support 16 grants in 8 States, increasing the total number of States participating by 2, for a total of 36. The increase will reduce the large backlog of unfunded projects and provide 120 additional nursing home beds; 126 convertible domiciliary and nursing home beds and 150 domiciliary beds in 8 states.

Construction

The 1987 request for the two construction appropriations totals $408.2 million. An additional $57 million, available from previous appropriations, will contribute toward a total program level of $465.2 million. Included is $415.5 million for medical facility projects, $3.6 million for the National Cemetery program, $5.0 million for the Staff Offices, $1.9 million for the regional office program, $300 thousand for the Emergency Fund, and $38.9 million for General Administration.

The budget proposes to maintain and upgrade the full network of medical facilities throughout the Nation and, in specific geographic areas, expand capabilities and bed space. Rather than defer maintenance, renovation, and modification of older facilities, the budget continues funding to maintain and upgrade the physical system.

Budget authority of $301 million is requested to support 10 major projects and other maintenance, safety correction, and design activities. Specifically, design funds are requested for Dayton, OH, Bed Replacement and Modernization and North Chicago, Illinois, Environmental Improvements, Patient and Nursing Home Care Buildings. The budget proposes to continue the average rate of construction over the last 10 years, replacing or modernizing two large hospitals each year. In 1987, construction funds are proposed for two large hospital projects in Baltimore, Maryland and Augusta, Georgia. Two new clinical improvement projects are scheduled for construction in Salem, VA and Salisbury, NC.

This budget includes a proposed reorganization of our construction program which would delegate responsibility for construction to the Chief Medical Director. To accomplish this reorganization, 73 positions are being transferred from DM&S Facility Planning under the Medical Administration and Miscellaneous Operating Expenses appropriation to the newly named Office of Facilities, under the construction minor appropriation. To enhance overall project oversight, ten positions will be transferred from construction to the newly established Office of the Associate Deputy Administrator for Management and three positions will be transferred to the Office of Controller to enhance fiscal oversight.

This concludes my prepared statement, Mr. Chairman. My staff and I will be pleased to answer your questions regarding the 1987 budget estimates of the Veterans Administration.

STATEMENT OF
JOHN W. DITZLER, M.D.
CHIEF MEDICAL DIRECTOR
DEPARTMENT OF MEDICINE AND SURGERY
VETERANS ADMINISTRATION

BEFORE THE
SUBCOMMITTEE ON HUD - INDEPENDENT AGENCIES
OF THE
SENATE COMMITTEE ON APPROPRIATIONS
ON
FISCAL YEAR 1987 MEDICAL PROGRAM BUDGETS

MARCH 19,1986

Mr. Chairman and Members of the Subcommittee:

I am pleased to be with you today to review the 1987 budget request for the medical programs of the Veterans Administration. The VA along with other government agencies is operating in a time of budget stringency necessitated by the goal of deficit reduction. Despite the reductions in this request we are committed to continue providing quality health care to eligible veteran beneficiaries. The Medical Care request for 1987 is $9.1 billion and 185,093 average employment. A net decrease of $46.2 million and 7,542 FTEE from the 1986 level. We estimate this request will support approximately 1,376,000 patients treated and 18.6 million outpatient visits. While this represents a decrease in the number of inpatients treated and a reduction in outpatient visits, we will continue to focus on insuring provision of quality health care services and expect this request to have no effect on that quality per se.

Medical Administration and Miscellaneous Operating Expenses (MAMOE) request for FY 1987 will support a physician staffing study estimated at $2,000,000 and reflects the transfer of the Postgraduate and Inservice Training (PIT) program to the Medical Care appropriation and the Facility Engineering, Planning and Construction Office (FEPAC) to the Construction appropriation through an administrative reorganization. The 1987 MAMOE employment level, after consideration of the transfers, will be 591 FTEE.

The Medical and Prosthetic research appropriation request for 1987 is $188,915,000 which will support 4,266 FTEE. This is an increase of $7.8 million over the 1986 level adjusted to reflect implementation of PL 99-177. The request includes $3,450,000 for the continuing requirements of the Centers for Disease Control (CDC) Agent Orange Epidemiology study and 25 FTEE and $1,100,000 for the Congressionally mandated study of the Adult Day Health Care program.

Under Grants for Construction of State Extended Care Facilities, the requested 1987 level is $42,400,000, which is an increase of $21.6 million over the 1986 adjusted level. This level will allow progress in reducing the backlog of applications in this program and is a part of the President's long term care initiative, which will expand the use of VA - supported State and community nursing home programs. Authorizing legislation to continue this program will be proposed.

We are also requesting $500,000 for Grants to the Republic of the Philippines in 1987 and proposing authorizing legislation to continue this program. This grant supports the maintenance and upkeep of the Veterans Memorial Medical Center physical plant and facilities.

We continue to support Legislation to amend Title 38, U.S.C. to reform Medical Care eligibility by establishing a means test for applicable nonservice connected veterans of all ages as requested last year, and to effect reimbursement from third party insurance carriers for the cost of medical care and treatment to veterans with nonservice-connected disabilities.

This concludes my opening statement Mr. Chairman. I will be pleased to answer any questions you or members of the subcommittee may have.

STATEMENT OF
RAYMOND J. VOGEL
CHIEF BENEFITS DIRECTOR
OF THE
VETERANS ADMINISTRATION
BEFORE THE
SENATE APPROPRIATIONS SUBCOMMITTEE
MARCH 19, 1986

Mr. Chairman and Members of the Subcommittee, I am pleased to present the Department of Veterans Benefits fiscal year 1987 appropriations request. The department administers an integrated program of veteran benefits activities. The 1987 request for $15.6 billion represents sixty-one percent of the VA's approximately $25.6 billion in appropriation requirements.

Funds for our Compensation, Pensions and Burial programs are the largest segment of the agency's budget. Our 1987 request, a total of $14.4 billion in appropriations, will provide an average monthly compensation benefit of $341 for more than 2.5 million veterans and survivors; assist nearly 1.3 million veterans and survivors with a monthly pension income of $251 and allow us to continue to maintain a comprehensive burial assistance program.

Legislation will be submitted to increase compensation and clothing allowance rates by 3.7 percent, effective December 1, 1986, and to change the eligibility for a burial plot allowance to the same criteria used for the basic ($300) burial allowance. The cost of the rate increase is now estimated to be $305.5 million. Changing the eligibility criteria for burial plot allowances will achieve $31.2 in savings.

Our request for the Readjustment Benefits appropriation is $741,150,000 and will provide educational assistance to 295,000 veterans and dependents; 25,500 veterans in Vocational Rehabilitation Training, and 800 veterans training under the new G.I. Bill. In addition, $69.9 million will be transferred into this account from the Department Of Defense for benefit payments to 81,600 reservist trainees under chapter 106 of title 10 U.S.C. Another 1,000 veterans will be assisted in the purchase of specially adapted homes and automobiles.

Legislation will be submitted to close enrollment for the Peacetime GI Bill, effective October 1, 1986, since the Department of Defense has determined that the new GI Bill is not necessary for recruitment and may be a disincentive for retention.

Funds for our Loan Guaranty and Direct Loan Housing programs are not requested for 1987 since all expenditures for both programs are anticipated to be met from available resources, principally from loan sales, cash sale of properties, funding fees and transfers.

Legislation is also being proposed to increase the present 1 percent Loan Guaranty funding fee to 2 percent in 1987 and gradually to 3.8 percent by 1990. The 1987 fee is proposed at 2 percent and will generate an additional $131.8 million in revenue.

Funds have not been requested for the Veterans' Job Training Program. While Public Law 99-238, "The Veterans' Compensation rate increase and Job Training Amendments of 1985", authorized $65 million for fiscal year 1986, funds are not requested because of current participation trends, the general overall improvement in the economy, and the corresponding drop in the unemployment rate for Vietnam-Era and Korean Conflict Veterans.

To administer our Benefit Programs, we are requesting $515,460,000 and 13,000 FTEE in our General Operating Expenses Appropriation for 1987, which is an increase of $46 million over 1986. This increase primarily consists of:

- $16.1 million for the Department's Modernization Initiative, which is a 6 year program focused on improving ADP and Telecommunications Systems in order to provide better service to veterans.

- $13.2 million transferred from the VA's Office of Data Management and Telecommunications to provide improved ADP System Development for Veterans Benefit Programs and maintenance of existing systems.

Also included in this request is the consolidation of the St. Paul Insurance Center into the Insurance Center at Philadelphia, PA. As a result of this management action, the same quality of service will be provided to our policyholders and beneficiaries at a significantly reduced cost.

"The Balanced Budget and Emergency Deficit Control Act of 1985" sequestered $66.3 million in appropriated funds administered by the Department of Veterans Benefits. These include: $39.4 million in Readjustment Benefits, $5.8 million in Burial Programs and $21.1 million in General Operating Expenses. The sequestration order also reduced the following loan programs: Loan Guaranty Commitments by $782.6 million (as amended by PL 99-255); Direct Loans by $43,000; Vocational Rehabilitation Loans by $46,000; Education Loans by $2,000 and all Insurance Policy Loans by $5.6 million.

To achieve these targeted reductions, Education Benefit levels have been reduced 8.7 percent; Vocational Rehabilitation subsistence allowance have been reduced 13.1 percent; and most Burial Benefits have been reduced less than 8 percent. To minimize the impact on our employment, we will be requesting a reprogramming between our payroll and non-payroll expenditures. The new loan commitment level of $17.4 billion, authorized by P.L. 99-255, should permit the Loan Guaranty Program to continue operating without interruption.

Mr. Chairman, this concludes my statement. We will be glad to discuss our Budget with the Subcommittee.

VETERANS ADMINISTRATION
DEPARTMENT OF MEMORIAL AFFAIRS
ACTING CHIEF MEMORIAL AFFAIRS DIRECTOR'S STATEMENT
FY 1987 SENATE APPROPRIATIONS SUBCOMMITTEE HEARING

I am pleased to present the Department of Memorial Affairs' Fiscal Year 1987 budget request. The Department of Memorial Affairs is responsible for three Veterans Administration missions: first, the operation and maintenance of the Veterans Administration National Cemetery System; second, the procurement and shipment to destination of headstones and markers furnished upon application for veterans' graves in both national and private cemeteries; and third, the grant program for aid to states in establishing, expanding or improving state veterans cemeteries.

The management structure within the Department of Memorial Affairs to supervise and control our assigned missions consists of a central office staff and three field area offices, presently located in Philadelphia, Atlanta, and Denver.

A total of 143 cemeterial installations are now included in the National Cemetery System, of which 111 are national cemeteries and 32 are miscellaneous burial plots and monument sites. The 111 national cemeteries include the West Virginia National Cemetery in Pruntytown, West Virginia which will open for interments in December 1986, the new regional cemetery at Ft. Mitchell, Alabama to open in spring 1987, and the Florida National Cemetery, located at the Withlacoochee State Forest, scheduled to open in early FY 1988.

Resources are also included in 1987 for the initial start-up equipment costs for the Florida National Cemetery.

Under the General Operating Expenses Appropriation, we are requesting $44,206,000 in budget authority for cemeterial operations and maintenance. Some 68.9% or $30,470,000 of this is for salaries and other related benefits, and will fund an average employment of 1,189. The other 31.1% or $13,736,000 will be used for equipment, supplies, fuel, contracts, communications, travel, printing and maintenance & repair projects.

During 1987 we expect to accomplish 54,500 interments and maintain 1,671,000 occupied gravesites. In addition, our workload includes the processing of 308,000 applications for headstones and markers.

The 1,189 average employment we plan to fund in 1987 includes 398 general schedule and 791 wage grade employees. The 1,189 employment request represents a net increase of 13 FTEE over the FY 1986 level of 1,176. The FY 1987 level includes savings expected from contracting out of selected cemeterial activities, partially offset by workload increases for interments and maintenance of gravesites.

The FY 1986 plan to reduce employment by 446 FTEE over a 5-year period has been amended to a level of 20 FTEE per year for a total of 100 FTEE. This amended plan will enable the Department to continue in contracting out efforts without disruption to departmental operations in FY 1987.

The 1987 request for construction funds totals $3,600,000. included in construction major funds is $600,000 in design funds for a proposed new national cemetery in Northern California and $3,000,000 in construction minor funds to provide needed cemetery facility improvements.

FY 1987 will be our eighth year of operation of the State Cemetery Grant Program. For 1986, $2,839,000 was appropriated. No new budget authority is requested for 1987 because sufficient funds are available from prior year's appropriation to meet expected requirements.

That briefly summarizes the 1987 budget request for the Department of Memorial Affairs. I will be glad to answer any questions you may have.

PREPARED STATEMENT

Senator GARN. Senator D'Amato?

Senator D'AMATO. I have a prepared statement on the VA that I would like to submit for inclusion in the hearing record.

Senator GARN. Without objection, it will be inserted at this point in the hearing record.

[The statement follows:]

STATEMENT OF SENATOR ALFONSE D'AMATO

Mr. Chairman, I commend you for addressing the important role that the Veterans Administration plays in serving the veterans of our country. I have always been a strong supporter of our veterans, and I am pleased to be discussing their future today.

As a strong supporter of services for our veterans, I am pleased that the veterans compensation and pension programs, as well as a portion of medical care services, are entirely exempt from sequestration. In addition, the VA budget has increased slightly in the President's 1987 budget to $26.6 billion. I am encouraged by the general support that veterans programs are receiving.

The President's package proposes two major changes to better direct veterans benefits to service-connected and low-income veterans. One of these will reform medical eligibility requirements in order to maintain medical benefits for veterans with service-connected disabilities and low incomes. The other restructures the VA's long-term care program in order to make the best use of VA resources to meet the needs of veterans who require long-term care services.

I am pleased that the VA is seriously addressing the long-term care needs of the veterans in this country. The Nation at large, however, has not yet confronted the seriousness of the long-term care problem. Financing mechanisms to meet the needs of long-term care patients and the reallocation of resources to provide the most effective and efficient health care services are issues that must be addressed. The VA should be commended for taking the lead in tackling these problems.

Thank you, Mr. Chairman.

TRANSFER OF FUNDS BETWEEN MEDICAL CARE AND GOE

Senator GARN. Mr. Alvarez, this subcommittee, as part of House Joint Resolution 465, the fiscal year 1985 appropriations continuing resolution, provided language under Amendment No. 58 which permitted the transfer of up to $8 million from the "Medical care" account to the "General operating expenses" account.

That funding has since been transferred. How much of that funding has been used to date?

Mr. ALVAREZ. Mr. Chairman, the controller will address that.

Mr. HOFFMAN. Mr. Chairman, $4.4 million has been obligated.

Senator GARN. What will be done with those funds?

Mr. HOFFMAN. The Department of Veterans' Benefits will be given $3.5 million for the modernization program which Mr. Alvarez spoke about. The ADP and telecommunications systems within DVB will be modernized to provide better service to veterans. Another $650,000 is going to the Office of Data Management and Telecommunications to cover costs associated with the closing of the Los Angeles and the St. Paul data processing centers and the Romney Message Switching Center at Austin. An additional $250,000 is going to the Department of Memorial Affairs for maintenance and repair purposes.

Senator GARN. And the remaining funds of that $8 million?

Mr. HOFFMAN. Of the remaining $3.6 million, another $3.5 million is earmarked for the Department of Veterans' Benefits, and an additional $100,000 is for staff offices.

INSURANCE LOANS

Senator GARN. As a result of the fiscal year 1986 sequestration, what limitations are you putting on the insurance program policyholders' ability to borrow against their own policies?

Mr. ALVAREZ. Mr. Chairman, our Chief Benefits Director could address that.

Mr. VOGEL. Mr. Chairman, it was decided to maintain the 11-percent interest rate on loans for the National Service Life Insurance, Veterans Special Life Insurance, Veterans Reopened Insurance, Veterans Insurance and Indemnities, and the Service-Disabled Veterans Insurance policy loans. Based on the current trend in loans, this action should be sufficient to stay within the limitation ceilings for the VI&I, the NSLI, and the VSLI programs. The latter two programs represent about 77 percent of the expected loan activity. Despite the 11-percent interest rate, it is anticipated that additional action will be necessary to keep open the service-disabled and veterans reopened programs.

The interest rate on the USGLI, which is essentially World War I veterans, is limited by law and cannot exceed 5 percent. We are continually looking at ways to see what steps can be taken administratively to continue the operation of loan activity through the remainder of this fiscal year.

Senator GARN. So at this point you are not limiting the amount of loans, you are just keeping interest rates high enough to stay within the limits?

Mr. VOGEL. In fact, there is a limit to the loan amount, because the amount of the indebtedness the loans represent is capitalized; USGLI holders will only be able to borrow 10 percent of the loan amount. For the VRI program, 59 percent will be available to be borrowed in order to stay within the sequestering amount. In Service-Disabled Veterans Insurance policy loans, it is 76 percent.

BURIAL BENEFITS

Senator GARN. What changes in fiscal year 1986 are you making in burial benefits in order to function within the amount left after sequestration?

Mr. VOGEL. All of the programs in burial benefits and miscellaneous accounts were sequestered. Some of the reductions, however, were revised by our ability to do some reprogramming. Mortgage life insurance, burial flags, headstones and markers, retired officers and adjusted-service cases, and the special allowance for dependents were not reduced because of the in-kind nature of the benefits.

A total of $5.8 million was sequestered from burial, so that the amount of reduction for them is 7.75 percent, for the headstone allowances, for service-connected death benefits, for the basic burial allowance, and for the burial plots. It has taken effect March 1.

Senator GARN. What changes in fiscal year 1986 now are being made in the readjustment programs?

Mr. VOGEL. Temporary reductions also had to be taken in those programs. The GI bill and the Dependents' Educational Assistance Program were reduced by 8.7 percent, and the Vocational Rehabilitation Program was reduced by 13.1 percent. The disparity in the Rehabilitation Program is because about 35 percent of the total payments made by the VA is for tuition, fees, books, and supplies.

We maintain our full commitment to provide that benefit to the veterans. In this program, therefore, we had to take a deeper cut in the amount of subsistence paid to the service-connected veterans for the training program.

FISCAL YEAR 1987 MEDICAL CARE STAFFING LEVELS

Senator GARN. The fiscal year 1987 staffing level proposed for the medical care appropriation is approximately a 4-percent reduction from the fiscal year 1986 current estimate. I understand there has not been a freeze in the hiring in the field; is that correct?

Mr. ALVAREZ. That's correct, sir.

IMPACT GRAMM-RUDMAN-HOLLINGS REDUCTION

Senator GARN. How do you plan to accomplish the $117.9 million medical care sequestration, including a reduction of $68 million in personal services and benefits, in fiscal year 1986 and the staff reduction established for fiscal year 1987?

Mr. ALVAREZ. Mr. Chairman, our Chief Medical Director, Dr. Ditzler, will address that question.

Dr. DITZLER. Mr. Chairman, we do not feel that there will be essential loss of activity in terms of workload with respect to the $117.9 million for fiscal year 1986. We have chosen to take the cuts pretty much across the board. We will reduce approximately $23 million in administration, $5 million in nonceiling employment, and another $40 million in payroll because of lower average salaries. Telephone systems will be put on hold. Various replacement equipment and nonrecurring M&R support will be reduced, along with workload in some non-VA programs.

I will be happy to provide those figures in detail for the record. Essentially, there will be 1,306 FTEE involved. We do not believe that this will affect workload in our 172 hospitals.

[The information follows:]

IMPACT OF SEQUESTRATION

The impact of the sequestration associated with Public Law 99-177 on the "Medical care" appropriation was adequately addressed by Dr. Ditzler in his testimony.

For 1987, however, we project a reduction of over 7,500 in FTEE and, consistent with our intent not to lower quality, we will be reducing inpatient workload as well as outpatient activity. We believe that we can still continue to provide a quality product for those people that we do serve.

We also propose, sir, that we take a very careful look at hospitals supporting higher than average non-service-connected workload and apply our efforts in that direction.

PROGRAM REFORMS AND MANAGEMENT INITIATIVES

Senator GARN. The budget justification on pages 5-16 of volume II lists a number of reform proposals and management initiatives within the Department of Medicine and Surgery that will permit the reduction of 8,927 FTEE and $504 million in savings in fiscal year 1987. Approximately 78 percent of the staffing decrease and 70 percent of the cost savings will come about by what is described as treating fewer low-priority veterans.

Now I know this subcommittee has been urging the agency for several years to develop means of prioritizing needs that relate to construction and a variety of other areas. It seems, however, that there could be a better description than your choice of lower priority veteran. What do you mean by that term?

TREATING FEWER LOW-PRIORITY VETERANS

Dr. DITZLER. Mr. Chairman, that is an abomination, and it is a low-priority term. It shouldn't be used. I have apologized to all of the committees so far and I apologize to this committee also for its appearance.

It has some history, however, in that title 38, as well as VA regulations, establish with legal reference a priority system for the order in which we prioritize care, particularly in the outpatient arena.

Under our proposal, or a revisiting, if you will, of the priority eligibility area, we clearly indicate that the service connected has the highest priority. We then go on and include prisoners of war, patients with agent orange, and a whole series of people who have priority for care.

The individual who is non-service-connected, although highly eligible, would be at the lower end of that priority list. It is a poor choice of terms that was used.

Senator GARN. Well, it doesn't disturb me personally, but with some I suppose it does, and I certainly cannot disagree with you of putting non-service-connected at the low end of the scale. In fact, I have a very difficult time of understanding a lot of the non-service-connected disability. I have now been off active duty for 26 years. I am in better shape, better health, and 30 pounds lighter than when I got off active duty 26 years ago.

So I don't feel that I should be entitled to anything. So I am a veteran. So what? The military did not harm me in any way. So I don't have any objection going in that direction, I would like to go further and don't understand why a lot of us in those categories are eligible for anything.

The service connected is an entirely different circumstance. But it is going to be tough to prove—the Senate may have damaged me the last 12 years.

Senator LAUTENBERG. Or vice versa. [Laughter.]

Senator GARN. But the military certainly didn't.

WORKLOAD REDUCTIONS IN FISCAL YEAR 1987

Would you describe, Dr. Ditzler, the means by which you would reduce 62,000 patients treated and 1,254,000 outpatient visits in fiscal year 1987?

Dr. DITZLER. Mr. Chairman, we believe we can do this. Certainly being more careful, where possible, to reduce non-service-connected workloads where there is a higher than normal ratio, as I indicated a moment ago.

We also are seeking legislation which we believe will assist us in this process by setting a certain priority level and dealing with those priorities on a first-come-type basis. We think that the issue will not cause too much of a problem, but we do believe it is the only way that we can provide a quality product for those we do care for.

ADVANCED TECHNOLOGY EQUIPMENT FUND

Senator GARN. In an attempt to inspire some creative problem solving last year, the Appropriations Committees provided $10 million for a pilot test of an advanced technology equipment program. It specified that the funds could only be used for advanced state-of-the-art equipment which cost over $500,000 and where at least 50 percent of the cost of the equipment would come from outside the Federal Government.

First, could you tell me what types of equipment have you identified that would meet the congressional intent?

Dr. DITZLER. Yes, sir, Mr. Chairman. We are dealing with the computerized axial tomography system, commonly known throughout the country as the CAT unit. We are also considering cyclotrons, which produce byproducts for nuclear medicine treatment; lithotripters, which are used primarily to crush stones by nonsurgical means; linear accelerators, which is an improvement in radiation therapy; magnetic resonance imaging [MRI] systems, which is the latest development originating from the CAT system; and finally, positron emission tomography, which is a combination of magnetic and radioactivity scanning and represents another aspect of the advancements in expensive radiotherapy and radiodiagnosis.

Senator GARN. What is the schedule for the evaluation of the pilot test?

Dr. DITZLER. I am going to ask Mr. Lindsey, our Director of Operations, to bring us up to date on that.

Mr. LINDSEY. We expect to have the proposals reviewed and the approvals made just before the end of this fiscal year. When the equipment is in place and we have had about 6 months' to 1 year's experience, we will complete a comprehensive evaluation of the program. By the time the equipment is selected and in place we could have the first part of a longer evaluation ready for submittal as a report to your committee.

Senator GARN. What is your opinion of the program so far?

Mr. LINDSEY. We are delighted with it. I think it has great potential for cost savings and cost avoidance for the VA. We are going into this program with great enthusiasm. The response from the field, in terms of over 80 applications received for consideration, tells us that the field has the same concept and opinion of the program.

Senator GARN. What do you expect—and I don't mean a dollar answer here—but what do you expect back in terms of each dollar we invest?

Mr. LINDSEY. That is a little difficult to predict, Senator. However, I would say that on the basis of our initial evaluation, the return on every dollar we invest up front for the equipment itself and for the construction and installation costs, could generate a return on investment of $1 to $3 for every $1 spent.

PROGRAM EVALUATION

Senator GARN. Have you developed any criteria by which you will judge the success of the pilot other than an economic one?

Mr. LINDSEY. Yes; that is why I am going now to our Technology Assessment Committee. We will use that criteria for long-term evaluation.

Senator GARN. Could we have a report—not the usual 100 pages or so—on that, so that us laymen can understand it, about five or six pages, direct and to the point.

[The information follows:]

ADVANCED TECHNOLOGY EQUIPMENT PILOT REPORT

As indicated in Mr. Lindsey's subsequent testimony, initial reports evaluating the advanced technology equipment pilot will be provided in early fiscal year 1987.

Mr. LINDSEY. As strange as it may sound to you, we prefer 5-page reports rather than 100-page reports as well.

Senator GARN. When do you think you will have completed your work and be able to report back to the subcommittee?

Mr. LINDSEY. I believe that early in fiscal year 1987 we can give you our initial reports.

Senator GARN. Do you have any examples of creative new activities the VA plans to undertake that will save the VA and taxpayers' money that this program may have inspired? Any looking beyond this one?

Mr. LINDSEY. Well, at this point we are not looking beyond this one, but let me give you an example of what has been inspired by this effort. One example, and there are many, is a proposal with two sharing partners—one, a State university, the other a community medical center—where we will share radiation therapy equipment. The initial cost will be about $1.6 million; we would provide one-half that cost and assume the installation cost as well. In return, we would reduce what is currently a $600,000 a year operating cost within the VA.

So this has great potential and, hopefully, we can use this as a springboard in our negotiations with the communities.

Senator GARN. Senator Lautenberg?

AGING VETERANS

Senator LAUTENBERG. Thank you, Mr. Chairman. I wish I could say the same 30 pounds lighter, et cetera, after my service, which I think was slightly before your service occurred. I wonder whether I could even get that Eisenhower jacket around my leg as opposed to around my chest. [Laughter.]

But I do sit here far better off having spent over 3 years in the military because I got an education and lots of support after those years of service. So I have always been grateful for it, grateful to the program and grateful to my country for the opportunities that it gave me.

I am pleased to be here and have you with us, Mr. Alvarez. You know the pressure that is on budgets generally, and the VA budget is not terribly different. We are protected only in small part in the compensation and pension area, and the rest is subject to sequestering.

I am concerned about what is going to happen next year because the prospects for cuts are ever more menacing. I don't think we are being forthright with our veterans, especially the aging population, as we ought to be.

New Jersey has an abundance of service people, veterans. We have about 1 million people in our State who served and who are now in the process of aging—thank goodness, considering the alternative. But about 165 million of our veterans are over the age of 65, and by the year 1990 that figure will be somewhere around a quarter of a million people.

The State suffers from an acute shortage of long-term nursing care beds, as I think you know. We need about 1,300 beds in the State right now just to take care of the present people. Of course, that need will expand as the population grows older. We need desperately beds for veterans who need nursing home care.

Now the State nursing care facility in Paramus—I am sure you are familiar with this—currently has 114 long-term beds available, but if funding for phases II and III of the facility were approved, it would add 200 beds for New Jersey veterans who need that kind of long-term nursing care.

Can you tell me what the VA plans are to move ahead with the funding for phases II and III of the nursing home facility in Paramus?

STATE NURSING HOME—PARAMUS

Mr. ALVAREZ. Senator, in general, we share those same concerns that you express on a nationwide level in terms of meeting the needs of the aging veteran in long-term care. That is why in this budget that is before you for 1987, you see a shift from the traditional long-term modes of care more to emphasis on our State and our community long-term care programs, nursing homes.

In fact, what you see in here is a doubling of the amount that we have this year for our State grant programs. So we are concerned about this on a nationwide level in trying to reach into those areas where our dollar goes further and our ability to meet the needs.

As far as the specific concern of New Jersey, I would like to turn that over to our Chief Medical Director, who could probably address that.

Dr. Ditzler?

Dr. DITZLER. Regarding specifics of the State nursing home, I would have to supply that for the record. I don't remember the specific dates. I know you are also concerned about the Ocean County outpatient clinic, which was approved by the Administrator in October of this past year, so that its first opportunity for the budget will come in the submission for fiscal year 1988.

Senator LAUTENBERG. Don't you have somebody on the staff who might have an idea what the status is of the Paramus program, when that facility might be completed?

Dr. DITZLER. I don't think so. Not present, sir. But I can get back to you today.

Senator LAUTENBERG. If you would, Doctor, I would appreciate that.

[The information follows:]

STATUS OF THE PARAMUS, NJ, STATE HOME CONSTRUCTION GRANT

The VA awarded a construction grant of $5,926,368 to the State of New Jersey for phase I of the Paramus project to produce 114 State nursing home beds on September 30, 1985. This represents 61 percent of the total cost of construction of $9,715,358. The full 65-percent VA participation was not possible because the State of New Jersey exceeded the space requirements in CFR 17.177.

The VA has $11,644,000 in Federal funds available from fiscal years 1985 and 1986 appropriations for phase II, amended, which will produce 240 nursing home care beds at an estimated total cost of $17,913,915. This represents 65 percent of the estimated total cost, subject to VA approval of the final drawings and specifications. The State of New Jersey, with VA approval, amended its preapplications for phases II and III on February 4, 1986, which redesigned the facility for 240 nursing home beds and combined the two phases.

The VA is waiting for the State of New Jersey to (1) submit final drawings and specifications which complies with VA requirements for VA approval; (2) select a contractor based upon VA-approved bid documents; and (3) submit final bid tabulations, revised budget page based on bids, and a signed memorandum of agreement so the VA can award the grant before the end of this fiscal year to avoid a larger unobligated balance at the end of fiscal year 1986.

SATELLITE OUTPATIENT CLINIC—NEW JERSEY

Senator LAUTENBERG. You talked about Ocean County. Do you have any notion as to when that Ocean County facility might be in place?

Dr. DITZLER. It has come through our planning process in which we now have some 20 clinics nationwide that have been approved. It is one on a planning list for potential funding in fiscal year 1988. That's the best information I have at the moment. As part of the planning process, it has been approved by the Administrator.

Senator LAUTENBERG. The study recognized that this was an exceptionally high-priority area, and it concerns the whole VA Medical District IV, that is New Jersey, Delaware, parts of Maryland, and Pennsylvania. You are aware that outpatient facility was given level I funding approval, as you have, I think, indicated, supporting the fact that the Chief Medical Director and the VA Administrator agree with the district's assessment of the need for this clinic, and you are at least expressing tacit support for it once again.

Why can't it move ahead then, if it has all of this evaluation behind it in approvals generally? Why can't we just go with it?

Dr. DITZLER. Dollars, I would have to suspect, is the prime reason, sir.

Senator LAUTENBERG. But is there not in the budget a consideration for this kind of facility at places around the country?

Dr. DITZLER. Senator, that is quite true. But we simply don't have enough money to do all that we would like to do. The number of satellite clinics that can be funded will not nearly match the demand for them around the country.

SATELLITE OUTPATIENT CLINIC PRIORITIES

Senator LAUTENBERG. OK. But those that are recognized by the study certainly are among those that are going to get the first attention. Can you tell me how many are in that group and what funds are available for satisfying the need for any of them and tell me where this particular facility is on the list of things?

Dr. DITZLER. All I can tell you, sir, is that it would be on a list of 20 currently approved for funding and it will depend on dollar funding availability in the fiscal year 1988 budget.

Senator LAUTENBERG. Is there a ranking within that 20?

Dr. DITZLER. Not at the moment.

Senator LAUTENBERG. Aren't you likely—I mean, you work with some kind of priority system. I assume that you say that within the 20 the needs are most urgent on a 1-to-20 basis, so that if you had funding only available for one, you would do No. 1. It is not arbitrary, is it?

Dr. DITZLER. I would like to believe that we had that ability, but at the moment we do not have it prioritized.

Senator LAUTENBERG. Well, you have population studies. I mean, you know what the demographics are. You know where your veterans are located. Do you have a lottery for how these things get funded, Doctor?

Dr. DITZLER. Senator, there are interested congressional people all over the country who have equally intense interest.

Senator LAUTENBERG. Yes; I don't have to deal with them, thank goodness. But, I mean, there is a basis for formulizing these things in some reasonable way.

Dr. DITZLER. That is quite correct, sir, and we have recently tried to answer the question to various Members of the Congress with regard to our ability to serve veterans in the rural areas. With that in mind, we just completed a survey which indicates that 97 percent of all veterans are within 100 miles of a VA facility. So that we are now reexamining the issue of satellite outpatient clinics as to how to serve the 3 percent who are not there.

It is for that reason that we have not as yet prioritized those that will go forward in fiscal year 1988.

Senator LAUTENBERG. I would like to somehow or another get a handle on how we develop the criteria and how the decisions are made, and once again reassert my interest in this densely populated area with lots of veterans needing care, with long trips otherwise necessary, and long waits necessary. I don't think we are treating our veterans properly, and I would really urge you to move ahead with the south Jersey facility. You know, your problems with others are your problems.

As we say, "Let her mother worry." The fact is, I have a responsibility to the veteran population of our area, I have a responsibility to veterans across the country. But somehow or other we have to say these are the hotspots and these are the things that we have to take care of.

And I would like your response as soon as possible in terms of how you are going to allocate the funds that you have in terms of the locations around the country. And, of course, to include south Jersey right at the top of the list.

Dr. DITZLER. Your interests are duly noted, sir.

Senator LAUTENBERG. Thank you, and thank you, Mr. Chairman.

[The information follows:]

PROPOSED OUTPATIENT CLINIC PRIORITIES

Although we appreciate Senator Lautenberg's specific interest in the Ocean County location, the 1985 MEDIPP decisions in regard to potential sites for future satellite clinic construction have not yet received a full consideration within the executive branch and cannot be released publicly. The Administrator has yet to be briefed on the specific priorities which developed through MEDIPP, and potential decisions still need to be discussed with officials of the Office of Management and Budget. Until all those deliberations are concluded, it would be inappropriate to release site-specific priorities or plans. Final decisions of the agency will be reflected in VA's 5-year needs assessment—provided the costs of these projects support being reported through that mechanism—and provided to the Congress with the next budget submission.

PRIORITIZED CONSTRUCTION PROJECTS

Senator GARN. I would just say, Senator, on the issue of priorities, they do have a difficult time. It took me several years to get them to prioritize construction projects. Now you get into this leasing area and it is starting all over again.

I would offer this observation, not only on behalf of south Jersey, but just in general, the only way you ever handle the political problems you deal with is to develop as objective criteria as you can and then stand by it. If south Jersey fits it, fine; if it doesn't, fine. You have to look Senator Lautenberg in the face and say you didn't meet the criteria.

In my opinion, it would be a lot less painful to you to do that, because you will always have political pressure from those who are elected to represent their States or their districts. We were elected to represent our States and our people. That is a fact of life.

It seems to me the best way to overcome that political pressure is to set the best objective criteria you can and then tell those others who don't fit it to go to hell. To put it bluntly.

You have got a lot of solid ground to stand on. So from the general standpoint, I support Senator Lautenberg completely. It is the best defense you can have against congressional pressure. Just set out a set of criteria and if somebody's doesn't drop in there, it is No. 11 on the list—a few years ago, you weren't here, but I asked for a list of construction projects and was aghast when I got it and No. 1 priority was a parking garage in San Francisco as opposed to patient care.

I think we know there were people in California who wanted that at the top of the list. But they couldn't convince me that a parking garage took precedence over patient care facilities.

SHARING HIGH-TECHNOLOGY EQUIPMENT

Senator LAUTENBERG. Thank you for your comments, Mr. Chairman. I am still in the process of learning, albeit sometimes too slowly.

The one question I would like to ask Dr. Ditzler, I used to serve on the board of a fairly good sized regional hospital in New Jersey, and the question of a linear accelerator was just developing then—I would say 8 or 10 years ago—does that sound about right in terms of technology?

Dr. DITZLER. That's right.

Senator LAUTENBERG. And we needed physicists, as I remember, to operate this very elaborate, very expensive, very beneficial equipment. I was curious about whether when called upon to supply the kind of service that can be rendered with linear accelerators, or similar types of very expensive equipment, do we in any way try to contract for those services at convenient hospitals that have these kinds of facilities, reducing the overhead, for putting in place this kind of facility and support system?

Dr. DITZLER. Senator, the sharing that we are doing with the communities is expanding. We are guided by two principles: First, that it be a quality service, and second, that it be reasonably competitive in the cost market. We find that where one has several opportunities for competitive bids for these services, we get a very fair price from the private sector. Where it is a singular, noncompetitive item in the private sector we often find that we are paying rather horrendous rates. In those cases we try to develop district sharing within the VA. That often means sending our patients many miles, but it is sometimes the only economical way we can provide the service.

On the question of the linear accelerator, it has almost replaced the standard cobalt and other types of x-ray therapy used in the modern radiotherapy crusade against cancer. So the linear accelerator is today's state of the art, but even that is being superseded by other things which we do more and more on a sharing basis.

Senator LAUTENBERG. Thank you, Mr. Chairman.

EMERGENCY JOB TRAINING

Senator GARN. The Federal Emergency Veterans Job Training Program for unemployed Vietnam and Korean veterans dropped the word "Emergency" from its title and has been extended for 1 year. Could you evaluate the success of the program?

Mr. ALVAREZ. Mr. Chairman, the program was one that was a jointly administered program between the Veterans Administration and the Department of Labor. At that time, when this program came into effect, we were addressing a Vietnam veteran and Korean war veteran unemployment level of 11.4 percent and 7.4 percent, respectively.

I think as far as a catalyst to help address the issue of unemployment, it was a success, since we have been able to assist about 38,000 veterans of these eras by placing them in our employment programs. Currently, the country is experiencing an unemployment level which is just slightly over 6 percent. So I think the need has been reduced. Not only that, we still experience about a $17 million unobligated balance in that account.

Senator GARN. So that is the reason you requested no funds for 1987?

Mr. ALVAREZ. Yes, sir.

Senator GARN. Well, it is not unusual to see this evolvement of a program. It was intended—and I remember the debates on the floor—as an emergency situation, temporary, and then we simply dropped the word "Emergency." It is hard to stop these programs once they begin, even though, as you point out, the unemployment rate in this grouping is less than the national average.

In your fiscal year 1987 budget, what item or items would you be willing to delete to provide an additional $65 million for the extension?

Mr. ALVAREZ. I would let our Chief Benefits Director address that question.

Mr. VOGEL. Mr. Chairman, with the significant improvement in the unemployment rate for Vietnam-era veterans and Korean conflict veterans, we think the Emergency Job Training Act has served its purpose. To go ahead with the institutionalization of a program when economic conditions don't indicate the need for it would be inappropriate. The program also duplicates, to some extent, efforts made by other job assistance services, largely those provided by the Department of Labor.

So we don't think there is a need for the $65 million. As Mr. Alvarez pointed out, there is still $17 million in unobligated balances. As veterans drop out of the program, we deobligate funds and they become available for subsequent applicants.

DEPARTMENT OF MEDICINE AND SURGERY REPROGRAMMING

Senator GARN. In March 1985, the Department of Medicine and Surgery transferred $50 million from within the "Medical care" account from object class 31—Equipment to object class 10—Personal services. It was not until the subcommittee was preparing for its markup in May 1985 that we found out about this transfer. Could you tell us why the subcommittee was not informed of that $50 million transfer?

Mr. ALVAREZ. I think Dr. John Gronvall, our Deputy Chief Medical Director, can address that question.

Dr. GRONVALL. Let me answer that directly. It was an oversight on the part of the Veterans Administration in not adequately informing the committee earlier in the year. If I might, Senator Garn, I would like to expand a little bit, on the flow of events impacting decisions on medical care employment. We went through a complicated series of steps and decisions and I think this will help put it in context. When the appropriation was passed for fiscal year 1985, it established an employment target of 193,941. When the President's budget for fiscal year 1986 was being developed, it became apparent to the VA that during fiscal year 1985 we would lack resources, particularly in regard to the pay supplemental, to fully meet that higher target.

So when the President's budget was presented for 1986, it included a recommendation that had been developed within the VA that our 1985 employment would be approximately 1,950 FTE below the target level of 193,941. As soon as the 1986 President's budget was presented, there was immediate concern expressed, particularly in the House Appropriations subcommittee regarding employment levels. Soon thereafter, we received a formal letter from the chairman of the House Appropriations Subcommittee indicating that it was his intent to provide supplemental funding during fiscal year 1985 to enable the VA to achieve and maintain the full staffing level of 193,941.

During the second quarter in fiscal year 1985, the Department allocated $50 million from part of the equipment account in our medical care appropriation to encourage the employment of additional staff in our field facilities. When the actual supplemental appropriation was received in August 1985, the funds that we had borrowed from the equipment account were then restored to support equipment purchases in our medical centers and the supplemental funds were allocated to support the personal services costs. Unfortunately, at that time, another unanticipated event occurred which undermined part of the strategy that had been developed. Our experience as we neared the end of fiscal year 1985 showed that the average salaries of our workforce in the medical care system turned out to be lower than we had predicted it would be at the beginning of the year. When we ended the year, the average salary that we actually experienced was some $300 per person less than we had expected would occur. If you want, I can go into the reasons for that, but that would perhaps be a digression.

As it turned out, we ended with a workforce of 193,229 FTE for the year and approximately $55 million of the total appropriation was carried over into fiscal year 1986. Again, perhaps just to complete the sequence, going into fiscal year 1986 then, the appropriation called for an employment level of 193,941 FTE. The Gramm-Rudman reduction, as Dr. Ditzler testified, will reduce that by about 1,306 FTE, so we are in the process of making similar employment adjustments during the 1986 operating year.

Senator GARN. Well, I am sure you have some reasons for it. My point is, within a $9 billion medical care account, what is your understanding of what you have to notify us about? I mean, $50 million out of $9 billion doesn't sound like very much, but when I was mayor of Salt Lake City I used to run the whole city for $50 million.

REPROGRAMMING REQUIREMENTS

Dr. GRONVALL. I think our clear understanding of the specific requirements for reprogramming between major programs is that if we wish to move more than $250,000 between major programs or activities within an appropriation, it requires prior formal notification to Congress and authoritative action by Congress.

In this case, the so-called borrowing—and I put that in quotes—of equipment funds was done within one major program and, therefore, did not technically meet the definition.

Senator GARN. Out of $300 million, $50 million is more than 10 percent, isn't it?

Dr. GRONVALL. But the use of the funds which were in the budget described as equipment funds and used for personnel during the course of the year was not a move of funds between major program or activities as defined in the Appropriations Act language. I opened my comment by saying we were clearly negligent in not notifying the committee.

Senator GARN. I am not trying to develop an adversarial situation here. We have a responsibility to work with you. It seems to me that we have got the same goal—to best serve the veterans population as we can. At least that is my attitude. I don't want an adversarial relationship. It just seems to me that as a matter of courtesy, rather than worry-about the technicalities of 10 percent of the requirement, it just makes good sense for us to talk to each other about what is going on.

That is the only point I am trying to make. I am not trying to sit up here and say you guys didn't tell us this, and you didn't tell us that, and play that kind of a cute little game with an adversary relationship. The end result is we have got difficult budget problems to work with, and the more we communicate back and forth, the better job we are going to do in the end result.

Dr. GRONVALL. We totally agree, Senator Garn, and again, I would apologize. Our intent is to maintain close communications with the committee and committee staff, so that there will be current awareness. We have just recently discussed mechanisms to ensure that there will be better and more regular communications, because we absolutely agree with what you are saying.

Senator GARN. Well, even sometimes just a phone call, you know, if it isn't a formal reprogramming request, it is just helpful to have that kind of communication and we can avoid problems of not knowing what is taking place. The tighter the budgets are, the more difficult it is to work these problems out.

Dr. GRONVALL. We look forward to better communications.

DECENTRALIZED HOSPITAL COMPUTER PROGRAM

Senator GARN. Thank you. We have provided considerable funding to date to automate patient scheduling, admissions, transfers and discharges, laboratory and pharmacy functions at VA medical centers.

How much money will the VA have expended by the end of fiscal year 1986 to purchase and install the 450 computers and 18,000 terminals and printers that constitute the VA Decentralized Hospital Computer Program?

Mr. ALVAREZ. Mr. Chairman, Mr. Lindsey can address that question.

Mr. LINDSEY. Mr. Chairman, in consideration of the costs anticipated through the end of this fiscal year, the cost of the purchase is $82,522,000.

Senator GARN. What is the total amount of money that is envisioned as being needed for the program from the end of fiscal year 1986 until the program is completed, and when do you anticipate that it will be completed?

Mr. LINDSEY. If I may respond again, that full amount of money that is envisioned as being needed for the purchase of computers, terminals, and printers, which includes a recurring replacement equipment base account, from the end of fiscal year 1986 till the program is completed represents $217,421,000, and our goal for completion of the procurement process as currently envisioned is 1994.

Senator GARN. What I am really attempting to obtain here is what the big picture is, rather than getting a request for each individual piece of equipment as we go along. So you are asking for approximately $40 million in fiscal year 1987, and what do you specifically plan to purchase in fiscal year 1987?

Mr. LINDSEY. The fiscal year 1987 request of $39,739,000 consists of $35,546,000 for equipment and the remainder for maintenance. These funds will be used to provide the capacity in fiscal year 1987 to proceed with implementation of those modules which are ready to be installed and are sitting on the shelf, and that includes the radiology module, the medical records tracking module, the fiscal and surgical modules.

Senator GARN. If we have provided no funds in fiscal year 1987, what would that do to your overall picture and progression with the program?

Mr. LINDSEY. We would be at a standstill, Senator. Right now we have no additional capacities in our system to get new modules up and running. So if we were at a standstill for another year, the credibility of what we are doing in the field would be affected. In addition to that, we would not realize the full potential of automating our medical records.

Senator GARN. When will the full core be operational in the VA medical centers?

Mr. LINDSEY. We hope to have them fully operational by the end of fiscal year 1987.

EQUIPMENT MODERNIZATION

Senator GARN. Mr. Alvarez, your opening statement indicates that $25 million is included in the fiscal year 1987 budget request as the first step of a 6-year plan to modernize the benefits delivery system. What do you estimate will be the total cost of the modernization?

Mr. ALVAREZ. Our Chief Benefits Director can address that question.

Mr. VOGEL. The total cost over a 6-year period will be $153.6 million. When it is completed, the Office of Data Management and Telecommunications anticipates recurring savings of over $44 million per year.

Senator GARN. What do you expect the bottom line results at the end of 6 years will be?

Mr. VOGEL. Mr. Chairman, the bottom line will result in a modernization which will change the regional office operations and the data systems. We will have an integrated architecture system, a system of integration, which will provide the regional offices with the ability to process transactions locally, reduce the response time, and provide more efficient means of transmitting data. The end result will be a more timely and more accurate performance of the duties and improved services to veterans in general. The implementation of the entire modernization plan will, as I indicated, result in a flexibility in the future. We will not have what we now experience in system-related barriers and the adverse financial consequences to program and organizational structure changes.

We believe we will realize increased personnel efficiency as early as fiscal year 1987. Our budget for fiscal year 1987 reflects a savings of 264 FTEE and a total of 511 FTEE through fiscal year 1989. The figure is nearly 1,000 FTEE by the time the program will be completed in 1991.

Senator GARN. What types of interim measures of effectiveness do you have specifically for fiscal years 1987, 1988, and 1989 to ensure the program will ultimately increase personnel efficiency and permit cost savings?

Mr. ALVAREZ. Paul Ising, our Deputy Chief Benefits Director, ADP Systems Management, will address that.

Mr. ISING. Mr. Chairman, the exact way of measuring that kind of efficiency is very difficult. The early phases of this project are office automation which will result in savings in FTEE in the clerical, production of letters, and that kind of document. There is no exact measurement that can be applied to that.

Later on, the installation of computer equipment will result in more accurately measuring savings in the programmer area.

Senator GARN. You feel that the cost savings will be considerably in excess of the cost of the design of the new systems and the cost of the hardware and software?

Mr. ISING. Yes, sir. It will not only be that, but because of the status of our present system, we must expend money to update that system regardless. The question is whether we replace what we have with modern state-of-the-art equipment or patch what we have, and the cost savings will be there for not only keeping our system running, but also achieving a modern state-of-the-art system.

CONSTRUCTION REORGANIZATION

Senator GARN. Perhaps the major reorganization that has been proposed is that of placing the Office of Construction under the Department of Medicine and Surgery. I thought that since our hearing on construction both DM&S and the Office of Construction were agreed that there was a tremendous improvement in the construction program.

Would you explain why the reorganization will improve the quality of construction and, hopefully, save money?

Mr. ALVAREZ. Mr. Chairman, the proposed reorganization is one that consolidates the functions of the Office of Construction along with the facility engineering and planning function currently within the Department of Medicine and Surgery into a single organization called Office of Facilities. We feel that this reorganization will result primarily in a single point of responsibility and accountability for all our construction activities in the agency. We feel that much of the present redundancy and overlapping authority that we are experiencing can be eliminated. We can see opportunities for achieving the efficiencies that would correlate with the proposals in the Booz-Allen and Hamilton study. We can anticipate major improvement in our construction program. Some of our efforts could be shortened by months and even a year in some cases.

Doctor, could you expand on that?

Dr. DITZLER. Mr. Chairman, I look at the main function of the captain of the ship or the pilot of the aircraft somewhat in the same fashion. Everybody has to be a part of the team, but you have to have one final decision authority. I think the Booz-Allen and Hamilton report showed after its year-long study that the greatest problem we face is the fragmentation of the process. They clearly indicated that the method that decreases fragmentation the most would be the best way to proceed. Booz-Allen and Hamilton also suggested that we needed to embark into new processes for the whole construction area. There are two things that really have to be accomplished. One is to decrease the fragmentation, which we propose to do by centralizing all construction decisions in one site, and the second is to improve the process. Therefore, by improving the processes, I think there will be a savings generated because of prevention of duplication, prevention of building Taj Mahals, and also a much more effective and time-efficient organization.

Senator GARN. Well, I am going to play the devil's advocate. The other side of the coin, those who would argue against, say that separate DM&S and Office of Construction provide a built-in set of checks and balances to prevent the Taj Mahals with the goldplating.

So you centralize, you put it in one office, how do you overcome that possibility when you combine them?

Dr. DITZLER. I would be most unhappy if I didn't have somebody overviewing what was going on. For that purpose, additional support is proposed for the Office of the Controller and for the Office of ADA for Management, for additional oversight.

So, I see the checks and balances still continuing, but the fragmentation being eliminated.

Senator GARN. Would you provide us for the record the number of persons served in engineering, design, and construction specialists in the 172 medical centers at the end of fiscal year 1985?

Dr. DITZLER. 246, sir.

SUBMITTED QUESTIONS

Senator GARN. Well, that's fast for the record. Mr. Alvarez, I have got some 45 pages of additional questions for you and I won't take the time to ask you to respond to them today, but we will submit them to you and ask you to respond to them as quickly as you can, in writing.

Is there anything that you would like to add?

Mr. ALVAREZ. No, sir. We will be happy to supply the answers for the record of the questions you will have. We want to also thank you and your committee for the support that you have given us over the past few years, especially under the previous Administrator's tenure. Of course, I realize a new Administrator will be coming on board shortly, Thomas K. Turnage, and we are looking forward to working with him and I am sure he is looking forward to working with your committee as well.

Senator GARN. Thank you very much.

[The following questions were not asked at the hearing but were submitted for response for the record:]

QUESTIONS SUBMITTED BY SENATOR GARN

FEMALE VETERANS

Question: Would you please update the information you have previously provided briefly specifying how the VA is adjusting to making available adequate services for the rapidly increasing population of female veterans?

Answer: The population of female veterans has grown dramatically. In 1970 it was estimated that women accounted for 1.4 percent of the veteran population although no census data actually existed on women who had served in the military. The first census which ever asked women about military service occurred in 1980 and showed that the 1.1 million living female veterans represented 4.1% of the veteran population. It is expected that the number of female veterans will grow slowly but steadily with the overall count reaching 1.3 million by the year 2015. The number of women veteran patients has also been growing. In 1970, 9,600 women were discharged from VA facilities. By 1984, this number had risen to 18,000. The VA has recognized these population changes with increased concern for meeting the unique gender related health care needs of women, particularly in the area of provision of gynecologic services to outpatients and inpatients, attention to adequate privacy, and appropriate physical examinations. The Chief Medical Director's decision to appoint Coordinators for women veterans at each VAMC has been indicative of efforts to make VA health care facilities more positive environments in which to assure that equitable care is provided for all patients, male and female. A nationwide conference was held in August 1985 to orient the coordinators and they have become active advocates for female veterans at the local level. The Department of Medicine and Surgery has continued to work closely with the VA Advisory Committee on Women Veterans in long range planning, outreach, and problem solving.

PARKING

Question: How much money is there in the FY 1987 budget request in the major and minor construction account for new above and below ground parking structures, surface parking lots and modification and repair of parking and parking-related facilities?

Answer: The associated cost for parking to support six major construction projects identified in the FY 1987 budget request is $11,890,000. Of this amount $10,000,000 is identified for an underground parking garage to be included in the Baltimore Replacement Medical Center project. The remaining $1,890,000 will provide surface parking in the five other major projects. At this time, we are not anticipating the expenditure of money from the FY 1987 minor request to support parking construction projects.

Question: How many spaces does this represent?

Answer: The FY 1987 major budget request supports provisions for 2589 parking spaces associated with six major construction projects.

Question: How many of these are in parking structures?

Answer: One parking structure, sized at 674 spaces, is included in the request to support the parking needs associated with the Baltimore Replacement Medical Center project.

Question: Last year in Senate Report 99-129, the Subcommittee attempted to take parking out of the controversial arena by suggesting that VA employees pay a fee into a revolving fund to pay off the construction and operational costs. We have never received an official response from the agency on this subject. Why is that?

Answer: At the direction of the Senate Appropriations Committee (Senate Report 99-129), we have begun the exploration of a program through which parking facilities can be provided at medical center sites and the cost paid for or amortized by the charging of user fees. In that this study has not been concluded, an official response has not been issued on this subject.

Question: What is the agency position on payment of fees for parking on VA facilities?

Answer: Until the results of the study are completed and evaluated, the agency does not have a position as to the payment of fees for parking.

PARKING COSTS

Question: How many parking garage spaces are proposed in the present major construction budget? Please provide two separate lists, one for major construction and one for minor construction, indicating the average cost per parking space for each project funded in FY 1985 and FY 1986 or proposed for FY 1987. Please identify the project by location and group the information by surface parking, free-standing parking structure, and parking structure attached to or combined with a medical center building.

Answer: A 674-car parking garage is proposed in the FY 1987 Construction Budget for the VA Medical Center Baltimore, MD, Replacement Medical Center. The following offers a summary of the projects and average cost per parking space:

MAJOR CONSTRUCTION PROJECTS

Location/Title of Project	Fiscal Year	Number of Spaces	Average Cost/ Parking Space
SURFACE PARKING			
Alexandria, LA Clinical Improvements	1985	43	$1,581
Amarillo, TX Addition and Renovation of Clinical Support	1985	149	1,591
American Lake, WA Laundry Replacement	1985	18	1,945
Brockton (West Roxbury), MA Outpatient Addition, Research and Education, Administration	1985	551	1,143
Buffalo, NY Research Building and Clinical Expansion	1985	45	1,800
Cheyenne, WY Expand and Renovate Building I for Clinical Addition	1985	53	1,377
Clarksburg, WV Clinical Addition and Alterations	1985	121	1,041
Durham, NC Clinical Addition	1985	25	1,880
Hines, IL 40-bed Long Term Spinal Cord Injury Building	1985	13	1,076
Iowa City, IA Ambulatory Care and Clinical Addition	1985	118	1,271
Long Beach, CA 160-bed Spinal Cord Injury Unit and Spinal Cord Injury Outpatient Clinic	1985	96	$1,990
Long Beach, CA Construct Supply Warehouse	1985	135	1,630
Louisville, KY Clinical and Education Addition	1985	199	2,090
Murfreesboro, TN 120-bed Nursing Home Care Unit	1985	103	1,388
Palo Alto (Palo Alto Division), CA Spinal Cord Injury Addition	1985	197	1,335
Prescott, AZ 60-bed Nursing Home Care Unit	1985	244	1,451

Location/Title of Project	Fiscal Year	Number of Spaces	Average Cost/ Parking Space
SURFACE PARKING (cont'd)			
Sheridan, WY Outpatient Clinic Addition	1985	50	2,120
Tampa, FL Radiation Therapy	1985	30	1,333
Amarillo, TX 120-bed Nursing Home Care Unit	1986	118	1,610
Coatesville, PA New Kitchen and Dining Hall	1986	137	438
Hines, IL 180-bed Psychiatric Replacement Facility	1986	4	1,000
Houston, TX Replacement and Modernization	1986	2,623	1,220
Milwaukee (Wood), WI, Renovate Building 43 for Domiciliary	1986	25	2,360
Mountain Home, TN Bed Tower and Renovation	1986	440	1,009
Philadelphia, PA Clinical Addition, Renovation, Parking and 240-bed Nursing Home Care Unit	1986	132	1,537
Temple, TX 408-bed Replacement Domiciliary	1986	90	1,111
Togus, ME Clinical Improvements, Building 200	1986	165	$ 655
Tucson, AZ 120-bed Nursing Home Care Unit	1986	65	1,000
Augusta, GA Replacement Medical Center	1987	920	793
Dayton, OH Bed Replacement and Modernization	1987	223	1,345
North Chicago, IL Environmental Improvements, Patient and Nursing Home Care Buildings	1987	196	2,194
Salem, VA Outpatient, Clinical and Nursing Home Care Unit Addition	1987	416	745
Salisbury, NC Geropsychiatric Building	1987	138	870

Location/Title of Project	Fiscal Year	Number of Spaces	Average Cost/ Parking Space
FREE-STANDING PARKING STRUCTURES			
None.			
PARKING STRUCTURES ATTACHED TO/COMBINED WITH MEDICAL CENTER BUILDINGS			
Lexington (Cooper Drive), KY Clinical Addition	1985	377	16,976
Los Angeles, CA Outpatient Clinic Building	1985	523	24,857
Allen Park, MI Replacement/ Modernization	1986	1,800	6,778 (parking structure)
		500	1,800 (surface)
Baltimore, MD Replacement Medical Center	1987	674	14,837
Miami, FL, Elevated Parking Structure	1986	400	$ 4310

SAN FRANCISCO NURSING HOME

Question: You have had three years to revise the design of the San Francisco Nursing Home Care Unit.

What changes have taken place since the approval of the FY 1984 appropriations bill to the VA concept on how the facility would operate and the design of the facility in specific?

Answer: The design footprint has changed from a v-shape pointed into the hill to a v-shape pointed out from the hill in an attempt to improve on the number of available parking spaces, to improve better visual parameters from the nursing unit bedrooms and to improve the environmental aspect of the design to blend in with the neighboring residential community. The new design is considered successful by the medical center and has improved these aspects of the design.

The operation of the facility remained the same as in the old design, however, several functional arrangements were improved in the new design.

a. The control of the entrance from the nursing station provides more direct visual control for patient and visitor awareness.

b. Outdoor court areas were created for better control of the wandering patient.

c. Other support area rearrangements were incorporated to provide better direct patient care.

d. Provisions for stretcher/wheelchair patients were made by slightly enlarging two bedrooms on each wing.

Question: What are the cost implications of the changes other than for inflation?

Answer: None, except for the design changes made to accommodate the stretcher/wheelchair patients mentioned above.

Question: What would be the cost of the revised nursing home unit and a four story garage?

Answer: The estimated cost of the revised nursing home care unit and four-story garage would be approximately $17,333,000 at the time of a FY 1987 award.

Question: In 1982, the VA internally reviewed all major construction projects with site visits by a revalidation team.

Where did the revalidation team recommend that the new nursing home be located?

Answer: Either VAMC Livermore or VAMC Palo Alto if the parking structure issue could not be resolved.

Question: How far from the city of San Francisco is the location proposed by the revalidation team?

Answer: VAMC Livermore, CA: Approximately 42 miles
VAMC Palo Alto, CA: Approximately 70 miles

Question: If a new prototype nursing home care unit was built at the site proposed by the revalidation team, how much money could be saved by elimination of the parking garage and the use of the prototype for the nursing home care unit?

Answer: If a new prototype nursing home care unit were to be built at either of the two sites recommended by the revalidation team, approximately $4,200,000 would be saved by not having to construct a parking garage.

The approximate savings for the construction of a prototype 120-bed nursing home care unit rather than a conventional 120-bed nursing home care unit is $1,100,000.

ADDITIONAL FTEE

Question: Congress in the FY 85 appropriations bill provided the VA with an additional 620 FTEE above the Agency's request. With the exception of the earmarking of 220 FTEE for Vet Centers, the Agency was able to distribute the additional capability of its discretion. The distribution of the remaining FTEE which apparently represents the VA's priorities was:

o Ambulatory Care	--	40%
o Unit Dose	--	21%
o Post Traumatic Stress Disorder	--	18%
o Geriatric Evaluation Units	--	9%
o Adult Day Health Care	--	9%
o Bone Marrow Transplant	--	2%
o Visual Impairment Service Team	--	1%

Would you please explain how this allocation was made?

Answer: Distribution of the remaining FTEE was based on VA priorities as reflected in the MEDIPP process and Congressional guidance. Explanation by program follows:

o Ambulatory Care - A top MEDIPP priority for the last two years, with strong Congressional emphasis.

o Unit Dose - Based on MEDIPP, with Congressional emphasis; funding will continue the conversion to unit dose at various VA medical centers.

o Post Traumatic Stress Disorder (PTSD) - Based on MEDIPP, with Congressional emphasis; Cleveland's PTSD unit will assist Central Office in refining the need for resources at PTSD units in other locations.

o Geriatric Evaluation Units (GEU's) - Based on MEDIPP, with Congressional emphasis. The Agency objective, as included in the report Caring for the Older Veteran, is to establish GEU's in 70 percent of the system's hospitals by 1990, and in 100 percent of the system's hospitals by 2000.

o Adult Day Health Care (ADHC) - Based on MEDIPP, with Congressional emphasis. Public Law 98-160 provides specific authority for the ADHC program.

o Bone Marrow Transplant - Departmental initiative (establish unit).

o Visual Impairment Service Team (VIST) - Departmental initiative (expand program). Resources have been distributed on the basis of the numbers of qualified personnel we estimate can be recruited for this program on a yearly basis.

Question: What other programs were in consideration for an increase?

Answer: The above programs were considered the highest priority areas for the distribution of resources within this allocation. While other program needs were reviewed, these were deemed the most crucial at this time.

Question: Would you please provide a prioritized list of the programs covered under the medical care account?

Answer: The Department of Medicine and Surgery is committed to providing high quality comprehensive health care for eligible veterans and to maintaining a balanced continuum of care providing a full array of services from complex specialized care to long term care. The Department is responsive to special medical needs as they are identified, and to Congressional mandates to establish or expand specific medical care programs. However, rather than identify specific medical care programs as priority areas, the Chief Medical Director has for several years articulated some key objectives and basic directions as guides for region, medical district and medical center establishment of planning priorities. Examples of these objectives are:

1. Opportunities for mission changes and consolidation of major clinical services should be explored.

2. There should be increased use of ambulatory care and other alternatives to inpatient services.

3. Opportunities should be pursued to achieve greater sharing of medical resources with both the Veterans Administration and the Department of Defense facilities and with cost-efficient community alternatives.

4. Specific measures to increase efficiency and productivity should be instituted at medical centers.

Within this broad guidance, individual medical centers, medical districts and regions are expected to establish program strategies and priorities that best meet the health care needs of veterans consistent with the district and medical center missions.

The following list of programs/activities are included and accounted for in the total Medical Care program. Each activity's actual cost can be verified by an internal VA reporting system (RCS 10-0141, section I).

Medical bed sections
Surgical bed sections
Psychiatric bed sections
Intermediate bed sections
VA hospitals
VA nursing homes
VA domiciliaries
Outpatient care
Misc. benefits and services
Education and training
Contract hospitals
State home hospitals
Community nursing homes
State home nursing
State home domiciliaries
CHAMPVA

Our accounting records also identify other programs (RCS 10-0141, section III). For all the programs listed below, total direct and indirect costs can be identified (with one exception - only direct costs are available for the Readjustment Counseling program, cost center 247). It is very important to realize that the resources for each program listed below are also included in the activities listed above.

Blind Clinic
Renal Transplant
Cardiac Surgical Procedures
Mental Hygiene Clinic
Day Treatment
Hospital Based Home Care
Spinal Cord Home Care
Electron Microscopy
Nuclear Medicine
Supervoltage Therapy
Prosthetic Treatment
Speech Pathology
Readjustment Counseling

MEDIPP/BEDSIZING MODEL

Question: Has the FY 85, FY 86 or FY 87 MEDIPP plan been approved and if so, when?

Answer: The 1985 MEDIPP Plan, submitted in 1985, was an Implementation Plan which covers FY 86, FY 87 and FY 88. The plan is still under review; however, we anticipate approval by late summer.

Question: Do you have any procedures to test, evaluate and approve changes to either the model or adjustments made by District planners?

If these exist, would you describe the procedures?

If the procedures do not exist, would you please explain why this is so?

Answer: A technical review of the results of applying the bed sizing model for each medical center is conducted by VACO staff. The procedures include:

(1) evaluating the input data to determine the accuracy

(2) reviewing trend data to determine the reasonableness of the planner's projections for discharge rates and length of stay

(3) reviewing the model results for several projection years to determine the reasonableness in bed allocations between bed sections and/or other medical centers in the district

(4) analyzing and evaluating the appropriateness of quantitative justification presented by planner's for any deviations from the model results

Once the determination has been made that technically the model has been accurately applied, the bed allocations by bed section for each medical center are then reviewed by the respective VACO program official to determine the appropriateness in terms of the specific program goals and objectives.

FACILITY ACTIVATIONS DURING FY 1984 AND FY 1985

Question: Three years ago, you provided to the subcommittee a list of the VA facilities that were expected to be activated during FY 1984. Although many of these facilities represent renovations, remodelings and improvements, in not one case in FY 1984 or FY 1985 did the activations appear to result in a decrease in FTEE. One of the major rationales used by the hospital directors and the VA for renovations, improvements and remodeling is that they will increase hospital efficiency.

Do you now have any examples where the VA is showing a decrease in personnel requirements as a result of these improvements?

Answer: The VA does not have any specific examples of projects with decreases in personnel. Any additional personnel must be specifically related to the project and consist only of those personnel necessary to activate the project.

While efficiency may be a by-product of the construction program, it is not the primary justification. Additional operating resources will be required for most projects to meet increased demand for inpatient and outpatient care, and to maintain and care for new building systems, space, and more sophisticated medical equipment and treatment modalities. Cost avoidance may occur due to more energy efficient construction, and other design and construction improvements, but this economy is difficult to document and not obtainable.

PRIORITY RANKING

Question: Would you please rank all the FY 1987 major construction projects in priority order using the newly developed ranking technique? Do not group the projects by category when you do this.

Answer:

VAMC	Project Description	Ranking Value
Milwaukee, WS	Fire and Safety Improvements	16.87
Salt Lake City, UT	Electrical Distribution	15.94
Waco, TX	Renovate Buildings 10 and 90	15.43
Salisbury, NC	180-Bed Geropsychiatric	15.12
Salem, VA	Outpatient, Clinical, Nursing Unit Addition	14.54
North Chicago, IL	Environmental Improvements (Design)	13.28
Baltimore, MD	Replacement VAMC	13.26
Augusta, GA	Replacement VAMC	13.02
Dayton, OH	Bed Addition/Renovate (Design)	12.52
White River Junction, VT	Research/Education Building	8.43

HOSPITAL CARE FOR NON-SERVICE CONNECTED VETERANS

Question: What was the cost associated with the Medical Care provided to all non-service connected patients during FY 85? What percent of the total FY 85 Medical cost does this represent?

Answer: Cost reporting data does not distinguish between veteran eligibilities. However, using the assumptions as footnoted the following data is provided:

Class of Care 1/	Obligations (in thousands)	Percent of FY 85 Med. Costs by Class
VA Hospitals	$3,558,003	66.0 2/
VA Nursing Homes	264,322	67.7 3/
VA Domiciliaries	77,777	81.7 3/
Outpatient Care:		
Staff	744,856	50.5 4/
Fee	67,287	40.0 4/
Community Nursing Home	224,830	83.6 5/

1/ Statistics for all other categories (non-VA) are no longer available.
2/ Based on NSC discharges percent of total hospital discharges.
3/ Based on the one day NSC census percent of total VA Nursing Home one day census.
4/ Based on NSC/SC visit distribution.
5/ Based on NSC discharges percent of total Community Nursing Home discharges.

Question: Please list the number and percent of non-service connected visits and bed days for each medical speciality for the most recent 12 month period for which you have data.

Answer: The following data are for FY 1985 medical center discharges (excluding one-day hemodialysis admissions), bed days of care and outpatient visits:

Bed Section	Discharges Number	Discharges %	Beds Days of Care Number	Beds Days of Care %
Medicine	350,617	67.8	5,662,539	68.5
Surgery	208,149	65.2	2,822,679	67.8
Psychiatry	106,643	61.6	4,278,370	56.5
Intermediate	15,473	70.2	3,029,260	68.3
Total Hospital	680,882	66.0	15,792,848	64.6

	Outpatient Visits	%
Medical Staff	8,988,252	50.5
Medical Fee	609,758	40.0

UNIT DOSE DISPENSING OF DRUGS

Question: What is the current status of the unit dose dispensing of drugs and your plans for the remainder of FY 86 and for FY 87?

Answer: The VA has previously funded up to the end-of-year FY 1986 approximately 62,221 of the total operating beds (70%) representing 123 facilities (72%). There is no VACO plan to convert beds to unit dose in FY 87.

Question: What resources do you intend to devote to the program in FY 87?

Answer: There is no funding planned for unit dose conversion in the VA's budget request for FY 87.

MEDICAL CARE PATIENT COST

Question: For the most recent year that you have data available, would you please indicate the average expenditure per day to the VA for the following:

- a VA medical center medical care patient
- a VA medical center psychiatric care patient
- a VA medical surgical care patient
- a VA medical center intermediate care patient
- a VA nursing home care patient
- a community nursing home care patient
- a contract hospital patient
- a State home nursing care patient that is a veteran
- a State home hospital patient that is a veteran
- a civilian health and medical program of the VA patient as a VA inpatient or VA outpatient
- a veteran in a VA Domiciliary facility
- a veteran in a State home domiciliary facility
- a patient at a VA medical center outpatient clinic at the hospital site
- a patient as a VA outpatient clinic at a satellite location
- a veteran participating in the VA adult day health care program

- a veteran participating in the VA hospital based home care program.

Would you also provide estimates of these expenditures for FY 86 and FY 87?

Answer: The average expenditures per day to the VA is provided in the following table. FY 1986 and 1987 projections are based on the 1987 President's Budget.

	Actual 1985	Est. 1986	Est. 1987
VA Medical Center:			
Medical Care Patient............	$308.75	$324.54	$335.24
Psychiatric Care Patient........	163.58	169.33	173.68
Surgical Care Patient...........	378.73	409.10	428.04
Intermediate Care Patient.......	135.32	141.02	145.09
VA Nursing Home Care Patient......	111.94	113.84	120.04
VA Domiciliary Patient............	43.62	44.70	46.11
VA Medical Center Outpatient Clinic and Satellite Outpatient Clinic Patient Visits 1/........	82.87	86.73	89.82
VA Adult Day Health Care..........	2/	2/	2/
VA Hospital Based Home Care.......	13.07	13.42	13.90

MEDICAL CARE PATIENT COST

	Actual 1985	Est. 1986	Est. 1987
Community Nursing Home Care Patient.....	$ 59.87	$ 64.38	$ 69.53
Contract Hospital Patient...............	404.33	477.52	607.40
State Home:			
Nursing Care Patient..................	17.05	17.05	17.05
Hospital Patient......................	15.25	15.25	15.25
Domiciliary...........................	7.30	7.30	7.30
Civilian Health and Medical Program of The VA as a VA Inpatient..............	426.70	490.96	564.60
VA Outpatient.............	75.41	90.48	104.05

1/ Satellite and hospital outpatient clinic costs are not distinguished by the VA accounting systems. Combined costs per staff visit are shown.

2/ Adult Day Health Care costs are not separately identified by the VA accounting systems.

BENEFICIARY TRAVEL PAYMENTS

Question: I have received mail relating to beneficiary travel fraud. This may be an indication of a fairly widespread problem. I know that the IG sent out an Alert Bulletin in September 1984 on this issue.

What has been done subsequent to that date to curb fraud, waste and abuse in the Beneficiary Travel Program?

Answer: The VA Form 70-2323, Certification of Inability To Pay Transportation Costs, has been completely revised to collect more in-depth information concerning the applicants' source and amount of income.

Question: Would you please describe the difference between the FY 86 and the proposed FY 87 beneficiary travel programs?

Answer: We propose to reform the beneficiary travel program for FY 87 by authorizing payments to eligible beneficiaries only for the cost of emergency ambulance transportation. This will be a departure from our present policy of authorizing various modes of transportation (e.g. public transportation; personally-owned conveyance; etc.).

DEPARTMENT OF VETERANS BENEFITS
DEBT COLLECTION

The Congress directed the VA in P.L. 98-371 to conduct one or more pilot programs "To determine the effectiveness of utilizing private contractual services to assist in the administrative collection of various types of delinquent debts or other funds due the government".

Question: What have you accomplished to date?

Answer: In 1985, the VA initiated a pilot program for referring selected accounts receivable to private collection agencies. Specifically, the test identified and referred accounts where former medical clients with state worker compensation insurance plans had received VA medical care for nonservice-connection disabilities. At the end of December 1985 this test had identified potential collections of $700,000 while collecting $24,113. In an effort to further expand the use of private collection agencies, the VA is developing a plan to strategically place them into a total debt collection system which makes use of all collection tools at the lowest cost to the government. The plan calls for a seven-step integrated system which includes referral to private collection agencies as the third step. Referral will occur only after the VA has taken all administrative collection action which includes benefit payment offset, requests for repayment through demand letters and by telephone, referral to credit reporting agencies and referral to IRS for income tax refund offset.

VA NURSING SHORTAGE

In the past, you have testified that the VA had a shortage of slightly over 1,000 nurses and that nation wide there was a shortage of as much as 100,000 nurses.

Question: What is the present situation?

Answer: Within the established ceiling, there is considerable improvement in the recruitment and retention of nurses system-wide except for professional nurses in intensive care units. VA medical centers in major cities are competing with comparable private sector hospitals for the highly skilled intensive care nurses. The hospitals that are having little or no difficulty are those that offer a substantial increase in salary. In San Diego for example, Kaiser Permanente Hospitals are reported to offer salaries for intensive care unit nurses that exceed those of the VA Medical Center by $8,000 to $10,000 per annum.

Question: What is the present ratio of RNs to LPNs at VA facilities?

Answer: 3:1

Question: How does this compare to private facilities?

Answer: 3:1*

*Data Source: Hospital Statistics, 1985, AHA

Question: What is the present salary difference between an RN and LPN?

Answer:

Average Salary		Per Annum
RN		$27,254
LPN		16,085
	Difference	$11,169

Question: What is the national average salaries for non-VA RNs and LPNs?

Answer:

* Average Salary		Per Annum
RN		$21,704
LPN		14,395
	Difference	$ 7,309

*Source: The Division of Nursing, 1984 National Sample Survey of Registered Nurses, 1983 National Sample Survey of Licensed Practical/Vocational Nurses, Department of Health and Human Services

Question: What is the VA-wide salaries for RNs and LPNs?

Answer: RN salaries, including benefits for FY 1985 were $1,108,418. A similar figure does not exist for LPNs, since their salaries are not separated from nursing assistants for computing purposes; the combined total is $551,584.

Question: How do the benefit packages differ between VA and non-VA Nurses?

Answer: In university hospital settings, tuition reimbursement is offered for the nurse ranging from 6-8 academic credits per semester. In addition, some offer free tuition or reduced tuition f family members. Dental health insurance and child care facilities a often provided. Increasingly, a choice of benefit packages is offere the nurse with the major factor being less take home pay and more fringe benefits or less fringe benefits and more take home pay. In general, the discrepancy between VA and private sector salaries and fringe benefits has narrowed as the demand for nursing services and shortage issues subsided with the decrease in patient bed census nation wide.

INCREASING REVENUES

A General Accounting Office study noted that the government is owed a staggering $64.6 billion due to over-reimbursements, overdue payments for taxes, loans and fines. Procedures previously used for tracking down and collecting these debts owed to the government have not been working effectively.

The subcommittee in the Senate Report (98-506) of the FY 85 appropriations bill included a legislative provision requiring the Office of General Counsel to test means of collecting debts due the agency and reducing the number of cases requiring litigation.

Question: Would you please bring us up-to-date on what the VA has been doing to improve its debt collection abilities?

Answer: We established a Debt Management Staff in August, 1985, to conduct an agency-wide assessment of debt collection activities and to develop a long-term debt collection and prevention strategy. In addition, we directed the identification of immediate initiatives to improve debt management. Since then we have implemented the following improvements:

1. In October, we began notifying seriously delinquent debtors that they would be referred to credit reporting agencies for failure to repay their debt to the VA. While we do not have a precise way to measure the impact of this initiative, it is expected to increase collections by as much as 15%.

2. In November, we notified a large group of debtors that they would be referred to IRS for tax refund offset for failure to repay the VA despite the fact that their debts had been reduced to judgment status through litigation. Later, we did refer 32,000 accounts to IRS. Through March 14 IRS has offset approximately 5,000 of those accounts and collected $2.5 million.

3. In January, we installed a toll-free telephone system at the VA Centralized Accounts Receivable Section (CARS) in St. Paul, Minnesota. Previously, we had relied principally on the issuance and receipt of correspondence to collect delinquent debts. The installation of this phone system now allows debtors to clarify their debts and establish repayment plans by phone rather than the time-consuming, paper intensive correspondence method.

4. In February, we combined the availability of the toll-free telephone system with the issuance of letters to debtors who

are subject to IRS tax refund offsets next year. Considering the previous lack of response from this group of debtors, our results have been dramatic. Through March 14, this project has resulted in 5,636 repayment plans which have a total value of $6,598,635. From this single project which spans the months of February-March, we are projecting an increase in cash collections of $350,000 per month throughout the remainder of FY 86 and all of FY 87.

5. In December, we analyzed the cost-effectiveness of litigation pursued by VA attorneys and found that approximately 40% of this workload could be reduced on the basis of cost versus potential gain. This finding resulted in the suspension of litigation on most cases of $600 or less, allowing the VA to reduce its staffing and still place greater emphasis on larger debts.

6. We have recently completed agreement in the agency on a new write-off policy which effectively disposes of debts determined to be uncollectible due to statutes of limitations, cost-effectiveness, etc. This new policy will enable us to write off a large number of accounts where the uncollectible debt exceeds $600 and is referable to the IRS for income purposes. Since we currently have in excess of $300 million in this category, we anticipate a gain to the general treasury of as much as $60 million in additional income tax as this policy is implemented.

7. We have just completed VA regulations on initiating federal salary offset with other agencies and are developing plans to initiate such offsets later this year. In particular, we have completed a match of VA debtors against Office of Personnel Management records and identified 36,815 federal employees who owe the VA over $40 million. In addition, we are preparing to do a similar match against Department of Defense and U.S. Postal Service records.

8. We are currently developing a plan to strategically place private collection agencies into the VA's integrated collection system. Under this plan, debts will be referred to private collection agencies when VA's internal collection system and one referral for IRS tax refund offset are not successful. This approach should produce additional collection at nominal administrative cost to the agency. It will also avoid the costly process of litigation in many cases when private collection agencies are successful. It should be noted that current plans for referring VA debtors to private collection agencies involves only those debts which are the result of default on an education or home loan agreement.

These results highlight selected initiatives for the sake of brevity. However, there have been a number of other improvements to the agency's debt management activities in recent months and many other proposals which are in development. All of these improvements and a strategic plan of action for the future of debt management in the VA will be described in a report due in draft by May 15 and finalized in June, 1986.

VA INCREASING REVENUES

Question: Would you also bring us up-to-date as to all your plans for excessing VA land?

Answer: As part of the budget process, the Administration identified 109 acres at the VA Medical Center West Los Angeles as excess to the needs of the VA. The value of this property along with 42 acres at VAMC Sepulveda, California has been estimated at $360 million by the General Services Administration. It is our intention to excess property at these locations which is not needed by the VA now or in the future. We are currently studying this matter to be certain that the proposed land disposal can be accomplished without compromising our ability to meet future requirements. In addition, we have advised the General Services Administration (GSA) of our intent to conduct real property utilization surveys during FY 1986 at the following sites: VA Medical Centers, Bath, New York; Fort Lyon, Colorado; St. Cloud, Minnesota; Livermore, California; and White City, Oregon. These surveys are being conducted with GSA participation in compliance with new procedures for implementing Executive Order 12512. If as a result of these surveys, additional land is identified as not being needed for current or future VA purposes, the required congressional notifications will be given.

Question: Do you have any specific goals as to the extent this is required in order to assist in deficit reductions?

Answer: We fully support the Administration's goals of raising revenues from the sale of VA property where it is determined that the property is no longer needed for current or future uses.

Question: How do these fit into VA long-term plans so that you are not having to buy back formerly excessed land at increased prices as was the case not so long ago at the Tampa VA Hospital?

Answer: Potential future uses of land is a prime consideration during the VA's survey process. Land required for future programmatic purposes would not be identified as excess to the Agency's needs.

SIZING OF SURGICAL SUITES

Question: Three years ago, your testimony indicated that research at the Ann Arbor VA Medical Center to develop a surgical management information system would be completed by April 1984. At last year's hearing, you indicated you were now considering the funding for this activity and would reach a decision "within the next few weeks" and that the study if activated could be completed in 18 months. Twelve months have now passed. What is the status of the research? Do you plan to incorporate a utilization standard into the new surgical criteria for construction projects within the next two years?

Answer: The necessary computer programming tasks associated with the Collaborative Management Research Project have been completed. Shortly, we will begin the process of testing the program using actual situations. We are hopeful that we will be able to fully implement the process this fiscal year, and do plan to incorporate a utilization standard into the new surgical criteria for construction projects within the next two years.

OCCUPANCY RATES

Question: In FY 84, 44 of 159 VA medical centers had occupancy rates of 75% or less; 20 of these were 70% or less. Every medical center in District 16 was under 75%.

The VA's Bed Sizing Model uses an 85% occupancy rate as target for projecting future surgical bed needs. In FY 84, 81 of 134 medical centers had rates of 75% or less.

Do you intend to continue to use occupancy rates in the Bed Sizing Model (85% for medical and surgical beds, 90% for psychiatric beds) to assess the performance of VA hospitals?

Answer: Planning for future bed requirements under the MEDIPP process utilizes an overall facility occupancy rate of approximately 87 percent, which represents a combination of the ideal occupancy rates for medical/surgical (85%), psychiatric (90%), and intermediate medicine (95%) beds. MEDIPP 1986 planning will also reflect these rates. The Department has made every attempt to maintain the 90,000 bed floor mandated by Public Law 97-72.

Occupancy rates per se, however, are becoming less insightful as measurements of efficiency. This is true in the VA as it is in the private sector, where the national average is approaching 65 percent.

A factor which artifically reduces real occupancy rates for many VA medical centers is the need to isolate certain types of patients which precludes the use of some empty beds. Some examples of these requirements are privacy for female veterans and the isolation of AIDS patients which may encumber several beds which cannot be utilized by other patients.

In addition, our internal "prospective" resource allocation system is providing a direct incentive to facilities which tends to lower the reported occupancy rates. In the future, we may, as a result, identify a need to adjust our goals on occupancy.

Question: What occupancy rates did you achieve in FY 85 and what do you expect for FY 86 and FY 87?

Answer: The occupancy rate achieved nationwide for all bed sections combined was 75.7% in FY 85. Based on the FY 87 budget request, occupancy rates for FY 86 and FY 87 are expected to decline slightly to 74.8 and 74.0 respectively.

CONSULTANTS AND EXPERTS

Question: How much did you spend on consultants and experts in FY 85?

Answer: In FY 85, the Veterans Administration obligated $1,760,000 for consultant and expert services.

Question: How much do you anticipate spending in FY 86 and FY 87?

Answer: The Veterans Administration anticipates spending $978,000 in FY 86 and $1,217,000 in FY 87 for consultant and expert services.

ESCALATION FACTOR

Question: This year you are using escalation rates agreed to by OMB in developing your construction project costs.

What are the escalation rates used for the construction budget?

Would you please update the table you prepared last year (displaying the escalation rate for each of the last ten years and the amount available in the working reserve)?

Answer: The escalation rates used in the FY 1987 construction budget, as agreed to by OMB were:

FY 1986 - 4.8%
FY 1987 - 4.6%
FY 1988 - 4.3%
FY 1989 - 4.0%
FY 1990 - 3.7%
FY 1991 and thereafter - 3.4%

The table follows:

		($ IN THOUSANDS)	
FISCAL YEAR	ANNUAL ESCALATION RATE	BOECKH INDEX*	WORKING RESERVE**
FY 1976	9.00	7.73	$ 0
FY 1977	9.00	8.18	614
FY 1978	7.00	5.77	1,793
FY 1979	7.00	7.68	5,918
FY 1980	8.00	9.22	9,874
FY 1981	10.00	9.90	15,872
FY 1982	11.00	9.19	20,291
FY 1983	11.00	6.48	26,793
FY 1984	8.00	3.02	15,433
FY 1985	5.20	1.25	38,441
FY 1986	4.80		36,770
FY 1987	4.60		28,209

*Boeckh index figures are percent changes in the index each fiscal year.

**Total estimated balance at Congressional Budget Submission (proposed offset amount each year already deducted).

AGENT ORANGE

Question: On January 10, 1986, The Veterans Affairs Committees sent letters to President Reagan and Secretary Bowen of Health and Human Services pointing out that the Centers for Disease Control (CDC) had changed the design of the Agent Orange Study without the approval of the Office of Technology Assessment (OTA) and that no further expenditures of funds should be made until after OTA approval. The concern was to insure at the outset that there should be no controversy as to the scientific validity of the study. How long do you estimate the program will be on hold while CDC & OTA evaluate the study design protocols?

Answer: Current plans are for the Office of Technology Assessment (OTA) to begin a review of the protocol for the Agent Orange component of the CDC Epidemiology Study by the middle of April 1986. It is anticipated that the results of OTA's review will not be available until early May. Start-up of the Agent Orange Study is contingent upon the results of OTA's review of the protocol.

Question: The FY 87 Budget justification indicates a request of $3.45 million for transfer to the Centers for Disease Control (CDC) for the conduct of the Agency Orange Epidemiology Study. Page 6-7 of Volume II of your budget justification indicates $1.249 million above last year is required, but does not indicate what for. What exactly would be done with the $3.45 million in FY 87?

Answer: The original FY 86 request of $3.8 million for CDC was reduced $1.5 million by Congress as CDC had unexpended FY 85 funds from reduced contract costs which were available for expenditure in FY 86. This $1.5 million was transferred to other programs in the Medical and Prosthetic Research account and was a one time Congressionally directed transfer. For FY 87, the $1,249 million is required by CDC to continue the ongoing programs and to offset this one time transfer in FY 86. See Attachment A, Distribution of CDC Expenditures by Object.

Question: If funding is provided at the FY 87 request level, will any additional funding be required for the outyears?

Answer: If OTA does not reach a decision in early May, additional costs may be incurred by CDC. If a decision is not reached within the next 3 months, a penalty fee may be incurred by CDC to pay the contractor up to $1.5 million depending on the terms of the contract. (Additional costs or penalty fees would be incurred in either FY 87 or FY 88).

However, if it is determined that this component should be cancelled altogether, CDC could recoup some of the funds, but could incur a penalty fee for cancelling the contract.

Question: If so would you please provide, for the record, a detailed break out of the annual expenditures for each future fiscal year object classification?

Answer: See attached Distribution of CDC Expenditures by Object for FY's 1983-1989 (Attachment A).

Question: Would you please ask CDC to provide details, for the record, of the annual expenditures, by object class, to date and estimates for the remainder of FY 86 and FY 87?

Answer: See attached Object Classification and Quarterly Breakdown (Attachment B).

ATTACHMENT B

Centers for Disease Control
Agent Orange

Object Classification and Quarterly Breakdown
of FY 1987 Budget Estimate
and Object Classification Breakdown of FY'88 and 89 Budget Estimates

	Object Classification	FY 1987 Estimate	1st Quarter FY 1987	2nd Quarter FY 1987	3rd Quarter FY 1987	4th Quarter FY 1987	FY 1988 Estimate	FY 1989 Estimate
10	Personnel	3,000,000	750,000	750,000	750,000	750,000	3,500,000	2,800,000
21	Travel /Transp. of Persons	285,000	85,500	64,130	78,370	57,000	285,000	180,000
22	Transp. of Things ..	10,000	8,000	1,000	500	500	10,000	5,000
23	Communications & Utilities	60,000	15,000	15,000	15,000	15,000	60,000	40,000
24	Printing & Reproduction	50,000	10,000	25,000	10,000	5,000	50,000	50,000
25	Contracts & Other Services	20,000	11,000	5,000	2,000	2,000	20,000	15,000
26	Supplies	15,000	3,750	3,750	3,750	3,750	15,000	7,000
31	Equipment	10,000	5,000	3,000	2,000	0	10,000	3,000
	Total	3,450,000	888,250	866,880	861,620	833,250	3,950,000	3,100,000
	FTE	55					55	44

Note:

1. This budget does not allow for increased contract cost resulting from delays in the start of the Agent Orange Exposure study. Although, there will be carryover funds from the FY 1986 budget, this budget proposal further limits our ability to absorb what could be large increased contract costs resulting from delays in the start of the Agent Orange Exposure Study--$2.0 to $3.0M. At this time, we cannot determine what these increased contract costs will be.
2. Although presented as an increase, the $3,450,000 budget request represents a $400,000 cut in out requested budget for FY 1987.

ATTACHMENT A

FY 1983 - FY 1989
Agent Orange

Distribution of CDC Expenditures by Object

		FY 1983 Actual	FY 1984 Actual	FY 1985 Actual	FY 1986 Estimate	FY 1987 Estimate	FY 1988 Estimate	FY 1989 Estimate
11	Personnel compensation ...	$589,346	$1,568,237	$3,368,920	$2,200,000	$2,632,000	3,070,000	$2,456,000
12	Personnel benefits	162,675	322,830	601,501	352,000	368,000	430,000	344,000
21	Travel & trans. of persons	43,393	72,266	171,640	190,000	285,000	285,000	180,000
22	Transportation of things .	23,750	6,327	8,341	30,000	10,000	10,000	5,000
23.2	Commun., util. & other rent	8,357	13,837	24,437	30,000	60,000	60,000	40,000
24	Printing & reproduction ..	-	9,959	20,163	25,000	50,000	50,000	50,000
25	Contracts & other services	23,556	10,851,878	36,275,488	4,446,633	20,000	20,000	15,000
26	Supplies & materials	35,985	23,105	16,977	20,000	15,000	15,000	7,000
31	Equipment	1,256,938	490,159	186,697	60,000	10,000	10,000	3,000
41	Grants, subsidies, & contributions	-	-	214,685	-	-		-
Total Expenditures.........		$2,144,000	$13,358,598	$40,888,849	$7,353,633	$3,450,000	$3,950,000	$3,100,000

Agent Orange Funding

Amt. avail. with carryover ..	$2,144,000	$53,974,000	$46,042,000	$7,354,000	-	-	-
Amt. provided	$2,144,000	$53,974,000	$5,426,000	$2,201,100	$3,450,000	-	-
(CDC Plan)	($3,000,000)	($57,346,000)	($8,650,000)	($2,300,000)	($3,850,000)	($3,950,000)	($3,100,000)

MEDICAL EQUIPMENT

Question: How much are you requesting for Medical Equipment During FY 87?

Answer: The 1987 budget request includes $344,130,000 for equipment. This estimate is for both replacement and additional equipment acquistion at existing facilities as well as planned facility activations.

Question: How does this compare to your FY 86 program level?

Answer: The 1987 level of $344,130,000 for equipment represents a $31,507,000, or a 10.1% percent increase over the 1986 level.

Question: Would you please submit, for the record, the amount obligated for equipment for each month during FY 85?

Answer: The chart below provides a monthly analysis of equipment expenditures for fiscal year 1985 (dollars in thousands).

October 1984	$ 4,549
November	10,012
December	19,523
January 1985	11,699
February	22,820
March	28,290
April	17,313
May	32,954
June	32,545
July	12,082
August	36,629
September	67,281
FY 1985 Total	295,697

Question: What is the ratio of the replacement to additional equipment for each year from FY 80 to FY 86?

Answer: The chart below provides an analysis of the ratio of expenditures between replacement and additional equipment:

1986 (current estimate)	1.25 to 1
1985 (actual)	.93 to 1
1984 (actual)	.81 to 1
1983 (actual)	.50 to 1
1982 (actual)	.93 to 1
1981 (actual)	1.26 to 1
1980 (actual)	.69 to 1

Question: Have you found it possible this year to isolate the portions of equipment related to activations in an actual year?

Answer: Yes, for allotments only.

Question: If so, what are the ratios if you include activation equipment?

Answer: The above ratios include new activations.

Question: What percentage of your FY 86 additional equipment budget do you intend to use for magnetic resonance imaging devices?

Answer: The FY 1986 additional equipment budget includes $8,000,000 or 6% for magnetic resonance imaging devices.

Question: What percentage of the FY 87 additional equipment do you envision for this purpose?

Answer: None.

COST OF TREATMENT

Question: Would you please update last year's list of the average cost per/day and cost per admission of veteran by age in intervals of five years?

Also indicate the estmated percent of total United States veterans group that received treatment in FY'85 and your projections for FY'86 and FY'87.

Answer: The database from which this information is drawn will not be available until late April 1986. We will supply the information requested as soon after that date as possible.

VA BONUS PROGRAM

Question: Would you please provide, for the record, the names of all VA employees who received a total of $10,000 or more in performance or SES bonuses last year?

Answer: Burdeen Brown (retired)
Wayne Hawkins
Robert Lindsey
Malcom Randall
Michael Rudd
John Sheehan
Donald Thompson
Albert Zamberlan

Question: Is it still possible for a member of the Performance Review Committee to also be a recipient?

Answer: Yes, it is possible for a Performance Review Board (PRB) member to receive an SES bonus. However, as explained in our response to questions submitted for the record last year, the VA has implemented procedures which preclude PRB members from participating in any deliberations on the development of bonus recommendations for themselves. Bonuses for members of the Department of Medicine and Surgery and Department of Veterans Benefits PRBs are recommended by the Chief Medical Director and Chief Benefits Director, respectively. These recommendations are reviewed by the VA PRB before being forwarded for the Administrator's consideration and approval.

Initial bonus recommendations for other VA executives, including members of the VA Performance Review Board, are developed by a "Bonus Screening Committee." This committee is comprised of key agency officials who are members of the VA, DM&S, or DVB PRB but are not eligible for a bonus, withdrew from bonus consideration, or are not in the pool of executives considered for bonuses by the VA PRB. When the Bonus Screening Committee's recommendations are presented to the VA Performance Review Board, PRB members who are under consideration for a bonus are excused from the meeting and the remaining PRB members constitute a quorum. Thus, the PRB members neither vote on bonuses for themselves nor on other executives competing with them for awards.

Question: Has this occurred within the last year?

Answer: Yes.

Question: Would you please provide, for the record, a list of all the individuals on each of the Performance Review Committees for last year and SES bonuses, if any, that they received?

Answer: The members of the Performance Review Boards for the last year and the SES bonuses they received follow:

VA Performance Review Board (PRB)

Everett Alvarez
John Gronvall
John Vogel ($8,809)
Arthur Hamerschlag
Susan Livingstone
Donald Jones
David Cole
Donald Ivers
Kenneth Eaton
Jack Sharkey ($3,525)
Conrad Hoffman ($6,028)
Raymond Blunt
Albert Peter
Michael Rudd ($10,716)
Clyde Cook ($8,037)
Robert Schultz ($4,019)
Renald Morani ($6,698)

Department of Medicine & Surgery PRB

John Gronvall
Robert Lindsey ($12,726)
Earl Brown
Charles Yarbrough ($9,138)
Donald Thompson ($11,386)
Albert Zamberlan ($11,386)
Richard Miller ($5,358)
Daniel Cooney
Alvis Carr ($5,358)
Sidney Ford ($4,689)
Francis Conrad
Joseph Travers ($8,707)

Department of Veterans Benefits PRB

John Hagan ($4,019)
David Brigham
David Walls ($4,019)
Raymond Peterson
Essie Morgan
Edward Green
Robert O'Toole ($7,368)
Dennis Wyant ($6,989)
Gerald Moore ($4,019)
Charles Dollarhide
Frederick Schatz
Paul Ising ($7,180)

Office of Inspector General PRB

James Curry, DOD
Joseph Genovese, DOT
Conrad Hoffman

CARDIAC SURGERY

Question: We were very concerned with the VA Cardiac Surgery Programs because of the publicity received at the Miami VAMC.

What revisions has the VA made in the Cardiac Surgery Program?

Answer: An intense review of the Cardiac Surgery Program was started with the appointment of a Special Advisory Committee for Cardiac Surgery in December 1984. This Committee met in March and July 1985 and submitted its report with recommendations in July 1985. An implementation plan has been developed but to date no revision has been made, although several recommendations have been made.

Question: How many of your 172 hospitals were conducting open heart surgery programs two years ago?

Answer: Forty-four (44) in-house and six (6) contract programs.

Question: How many are there conducting these programs today?

Answer: Forty-four (44) in-house and six (6) contract programs. Within the present fiscal year, two contract programs will be changed to in-house programs. These programs are Tucson and Seattle and each of these locations is presently moving into new buildings.

Question: Last year, you testified that the VA Consultant Committee recommended closing seven open heart surgery programs because of insufficient volume, high mortality or excessive costs.

When did the Committee last make any recommendations?

Answer: The Committee forwarded its report with recommendations to the Chief Medical Director on July 26, 1985.

Question: Would you describe those recommendations?

Answer: The recommendations were as follows:

1. Cardiac surgery care should continue as one of the excellent comprehensive medical services provided by the Veterans Administration.

2. A regional network of in-house cardiac surgery services should be identified and assigned resources sufficient to ensure cardiac care for all eligible veterans.

3. Cardiac surgical services conducted in hospitals which had not achieved a case load of 100 cases per year in the years 1983 and 1984 should almost all be closed, and the case load of those hospitals should be assigned to the identified regional center. Exceptions to such action are hospitals which have an adequate case load potential but which have not achieved 100 cases annually because of inadequate resources allocated to the service. In such instances, a decision should be made to allocate the necessary resources or close the cardiac surgical service, assigning its cases to another center which is adequately funded. Such decisions should be made within two years after issuance of this report. All remaining active services should be informed that the case load which justifies continuance will be 150 cases per year by the end of fiscal year 1988.

4. Cardiac surgical services which exceed a five percent operative mortality rate over a twenty-four month period for coronary artery bypass surgery should be subject to prompt review by appropriate cardiac consultants and should demonstrate promise of reducing operative mortality to a level below five percent within one year or should be considered by the Chief Medical Director for termination. This review would occur in addition to the current, ongoing review which occurs for Veterans Administration cardiac surgery semi-annually. In some instances, the five percent mortality, or higher mortality, may be considered satisfactory.

5. There should be an annual meeting of Veterans Administration cardiac surgical service directors to review issues of common concern including quality of care, education, and promising areas for research.

6. New requests to establish cardiac surgical services should be examined carefully and approved only if there is identifiable need for patient care and realistic prospects for the program to meet volume and mortality criteria within a three year period.

7. Members of the Committee believe that there is no reason to impose by centralized decree clinical criteria on patient selection for surgery. Specifically, age should not be a basis which precludes surgery. Rather, the responsible physician managing the patient should make a clinical judgement recommending medical or surgical care on the basis of potential benefits and risks to the patient. The decision should be made after discussion of the risks and benefits of surgery with the patient and, when indicated, the patient's family.

8. The Veterans Administration should continue to refine its data base on all patients in its system so that it can lead the nation in analyzing socioecomic-cultural factors as well as standard physiologic data.

BALTIMORE HOSPITAL

Question: After extraordinary delays, the subcommittee finally received the study it requested on a cost effective approach to providing medical services to veterans in the Baltimore area of Maryland. The recommendation was to close the existing Loch Raven hospital and construct a new medical center in downtown Baltimore. How does the size of this proposed new facility compare to the original plan for a new hospital over a decade ago? What is the status of the project? Since the Loch Raven medical center will close when the new center is opened, what will happen to this facility?

Answer: The original hospital design was developed for 400 beds. The new plan projects the need for 324 beds. Currently, work has begun with the Architect/Engineer to revise the existing working drawings to accommodate the changes which have occurred since the original design was completed in 1981. It is anticipated that the present Loch Raven site will be excessed and that the government will realize additional revenues from the sale of the property.

NURSING HOME CONSTRUCTION

Question: When limited to two nursing home construction projects in FY 1986, why did you put them both in the same medical district?

Answer: Medical District No. 25, which consisted of six medical centers located at Albuquerque, Amarillo, Big Spring, Phoenix, Prescott and Tucson, had the largest percentage of unmet nursing home care needs in the system and therefore was ranked as No. 1 for the FY 1986 nursing home care unit program. We therefore proposed the establishment of new nursing homes at Amarillo and Tucson.

VA DEPARTMENT OF MEMORIAL AFFAIRS

Question: What is the biggest problem that the Department of Memorial Affairs is currently facing in the operation and maintenance of 143 cemeterial institutions?

Answer: The Department is not currently facing any long range problems that will severely impact our operation and services provided. We have, however, experienced some impact as a result of the Gramm/Rudman/Hollings reductions.

The Balanced Budget and Emergency Deficit Control Act of 1985 had its greatest impact on our non-payroll accounts. Funding for projects to accomplish maintenance and repair of roads, drives, parking lots, buildings, fences, walls, etc. was significantly restricted, resulting in deferral and/or cancellations of many of these types of projects. Funding available for purchase of vehicles, utility and operating equipment was also considerably reduced. As a result, we expect to incur increased maintenance and repair costs to keep equipment operating.

These reductions are not immobilizing our operation. They are, however, forcing the Department to prioritize its expenditure of these limited resources, in order to ensure the greatest benefit to the Department and those it serves.

VA DEPARTMENT OF MEMORIAL AFFAIRS

Question: Your FY 87 budget indicates a request for $3 million in minor construction. How many separate projects and what percent of all cemeteries would be using these funds in FY 87?

Answer: There are 33 separate projects identified to receive funding from the $3 million available in minor construction, of which 24 cemeteries, or 22% of the total will receive minor construction funding in FY 87.

VA DEPARTMENT OF MEMORIAL AFFAIRS

Question: You are also requesting $600,000 in design funds. This seems rather high. Please describe the size of the proposed cemetery, the number of buildings, the anticipated number of gravesites and the estimated total cost?

Answer: A tract of land, consisting of approximately 400 acres, has been offered to the VA as a donation for the establishment of a new national cemetery in Northern California. The agency is initiating the hiring of an outside consultant to prepare an Environmental Impact Statement (EIS). From the EIS, the VA will determine how many acres are suitable for burial and development. It is too early in the process to determine the anticipated gravesite yield. Construction plans are tentative at this time, however, it is expected that administration and maintenance/service buildings would be constructed, as well as committal shelters (3), and public restrooms.

This proposed new cemetery is still in preliminary stages of negotiations, therefore a total construction cost has not yet been developed. However, as a point of comparison, construction costs for Florida National Cemetery (still in preliminary stages) are estimated at $6.3 million.

Question: What would be the effect if the $600,000 was not provided in FY 87?

Answer: The design of the cemetery would not be accomplished. The provision of design funds will enable the Department to ensure the completion of the project within the projected timeframe.

VA DEPARTMENT OF MEMORIAL AFFAIRS

Question: Would you also provide the total cost, the number of gravesites, and design cost for the last ten cemeteries that the VA has built?

Answer: Below is information on the last seven cemeteries the VA has built. Six of these are regional cemeteries; Quantico is the exception, and was authorized in addition to the ten regional cemeteries. The other four of the ten regional cemeteries (Willamette, Fort Logan, Houston, and Jefferson Barracks) were established prior to 1963, therefore, data on construction costs would not be conducive to comparison.

Cemetery	No. of Gravesites Developed to Date	Design Costs	Current Est. Costs 1/
Ft. Mitchell, AL	-	$570,000*	$ 3,356,000
Ft. Custer, MI	9,600	$748,000	$ 2,960,000
Calverton, NY	141,000	$972,000	$11,705,000
Massachusetts, MA	26,000	$651,000	$ 5,481,000
Indiantown Gap, PA	15,500	$327,000	$ 3,309,000
Riverside, CA	73,000	$400,000*	$ 7,873,000
Quantico, VA	56,000	$498,000	$ 5,767,000

1/ Total cost includes design costs separately identified.

*Estimated

VA DEPARTMENT OF MEMORIAL AFFAIRS

Question: The VA has been attempting to build standardized nursing homes to reduce cost. Could you also develop a similar basic design that you could adapt to unique siting and size to reduce design and construction costs in the future?

Answer: Each site selected for a national cemetery is topographically unique, thereby precluding any standardized cemetery design. However, in the interests of economy, the Department does utilize standardized design requirements for a few of the structures built on the cemetery grounds, such as committal shelters, administration buildings, etc.

SHARED HOSPITAL FACILITIES

Question: What is the number of facilities where VA and DoD are sharing hospital facilities?

Answer: Two. USAF Hospital Minot, ND has allocated six beds for veterans. The agreement is with Fargo, ND VAMC. The USAF Hospital Elmendorf, AK has allocated 5 beds to veterans. This agreement is with the Anchorage, AK OPC.

Question: At what specific locations do you envision this sharing to occur in the future?

Answer: Future funding levels and changing requirements make it difficult to be certain. However, the following projects are under consideration: USAF Hospital, Nellis AFB, NV joint venture with the VA. The VA would purchase 55 beds in a new Air Force hospital.

Tripler Army Medical Center, Honolulu Hawaii. VA would renovate Tripler's E-Wing.

Albuquerque, NM VAMC would share its new "clinical services addition" with the Air Force.

Tucson, AZ VAMC is currently discussing a joint venture for it's new "clinical services addition" with USAF Hospital, Davis Monthan AFB.

Question: What type of arrangements are anticipated for the transfer of funding between the two agencies.

Answer: The arrangements would include utilizing the current procedures contained in VA/DoD Sharing Law 38 U.S.C. Section 5011; the Economy Act of 1932, 31 U.S.C. Section 1535; and, sharing of specialized medical resources, 38 U.S.C. Sections 5053 and 5054. These procedures allow VAMC's to be reimbursed for services provided.

NATIONAL DISASTER MEDICAL SYSTEM

You have requested $1.8 million and 69 FTEE to initiate funding for a National Disaster Medical System.

Question: Have you done any long range planning for this system where you might plan for a logical plan of funds over a period of time?

Answer: The VA request for funding is based on experience gained in coordination of eight civilian-military contingency hospital system areas. In addition to that experience, the expansion of the system in both size (from 50,000 to 100,000 acute care hospital beds) and scope (from just military casualty to both military casualties and civilian disaster victims) have been factored into the Agency request. VA's participation is supported by the Department of Defense, Department of Health and Human Services, the Federal Emergency Management Agency and the National Security Council staff.

Question: What do you anticipate as the VA portion of the expenditures over the next ten years?

Answer: The VA has been requested to coordinate 28 of the system's 71 areas. This will require the efforts of 36 VA medical centers. Coordination in fact may be described as:

- Preparation of a joint Military-VA Civilian Operations Plan for the designated primary receiving area.
- Reception, sorting and provision of emergency care to patients at the arrival point.
- Planning and transportation of patients from arrival location to appropriate military, VA and civilian hospitals.
- Administrative responsibility for military casualties hospitalized in non-military facilities (military assistance required).

- Submission of bed availability reports for civilian and VA hospitals to the Armed Services Medical Regulating Office (ASMRO).

- Maintenance of a military and civilian patient locator system.

- Provision for military personnel management for all military personnel hospitalized within the area. VAMCs designated as Federal Coordinating Hospitals will require DoD assistance for this responsibility.

- Maintenace of Liaison with participating civilian hospitals.

- Implementation of annual exercises to test the area operation plan.

- Responsibility for successful area participation in the NDMS continuing education program, including instruction, certification and recordkeeping.

Question: Do you have any idea of what percentage of the overall system expenditures will be undertaken by the VA?

Answer: Based on current requirements, between 30 and 50 percent of the overall system will be coordinated by the VA, and therefore, assume perhaps an equivalent percentage of the real cost.

Another agency within the Subcommittee's jurisdiction is the Federal Emergency Management Agency (FEMA). This agency would seem to be the logical spot for government-wide coordination for the system.

Question: Is FEMA playing the lead role in the government-wide establishment of the system?

Answer: NDMS is a cooperative endeavor with four major organizations (VA/DoD/DHHS/FEMA) sharing responsibility for development of the system. Only VA and DoD can actively operate the system once it is activated. This is a matter of having the assets (Transportation, communications, medical centers, etc.) in the community.

It must again be emphasized that the real work of NDMS only begins when memoranda of understanding with the non-Federal sector are signed. This is a "live" system that must be worked on constantly.

Question: What is planned to be the communications compatibility between the existing State and local emergency operating centers?

Answer: Each coordinating center works with NDMS participations to develop operations plans unique to that particular reception area. Federal, State, Local and government unit work with the private sector, and together prepare plans for communications, transportation, reception, etc. The communications plans are integrated into a community plan so that participants become familiar with operating procedures and command structure. Coordinating centers are also tied into the Armed Services Medical Regulating Office to report bed availability and patient requirements.

Question: Will the job of the 36 health systems specialists, who serve as coordinators, be full-time on the National Disaster Medical System?

If not, why do we need funding for these positions?

If yes, what will they do in FY 87?

Please answer these same questions concerning the assistant positions?

Answer: All NDMS Health System Specialists who serve as coordinators or program specialists and assistants will work full-time on the National Disaster Medical System. These are full-time positions that are essential to establishment and continued operational capability of the system.

Operation, not just establishment, of the system is the VA's concern. That work will continue as long as there is a need for the system.

Question: What would be the impact in FY 87 if funding for 36 assistants was deleted?

Answer: The staffing request is conservatively stated. Without the requested staffing at this base level, the system cannot be successfully operated. Post installation evaluation will verify this statement.

MAJOR CONSTRUCTION - WORKING RESERVE

Question: What is the status of the working reserve at this point in time?

What is your estimate for the end of FY 1986?

What are the implications for FY 1987 major construction reprogramming?

Answer: The status of the working reserve as of March 17, 1986 is:

	($ in 000)
Balance in FY 1987 Budget	$28,209
Less: Reprogrammings	-23,811
Add : Savings	+ 4,311
	$ 8,709

We cannot predict what the balance of the reserve will be at the end of FY 1986.

The balance in the FY 1987 budget assumes an offset of $57 million from the working reserve against the FY 1987 request.

MOST EFFICIENT ORGANIZATION

Question: Under the heading of Other Program Improvements on Page 5-21 of Volume II of your budget justification, you are requesting $5 million to support most efficient organization studies in FY 87.

I have no idea what this is other than it is related to productivity. Your budget justification is no help.

Would you please explain the history and the intent of this program?

Answer: MEO (Most Efficient Organization) studies are internal management reviews that are conducted to improve efficiency and increase the productivity of an organization. The Department of Medicine and Surgery has identified five activities for MEO studies: Dietetic Food Service, Housekeeping Services, Plant Maintenance, Medical Information, and Office Operations. Five hundred seventy-two studies are scheduled to be conducted at our VA medical centers during FY 1986 and FY 1987. The $5 million in the FY 1987 budget is needed to obtain consultive services for on-site technical assistance to assist facilities in specific studies, and for major systemwide studies of functions, methods improvements, and other general enhancements to be adapted to individual facilities. These studies are scheduled to improve productivity in those activities not scheduled to undergo A-76 cost comparison studies.

Question: What funds have we spent, to date, on this program?

Answer: MEO studies began in October 1985. It would be difficult to ascertain the amount of time spent and the employment and all other costs in conducting these studies in the field. We have no system in place to obtain this information.

Question: What would be the result if no funds were provided in FY 87?

Answer: The Veterans Administration has requested $5 million for FY 1987. If funds are not provided, it will be difficult to meet established schedules, the quality of the studies would be impaired, and the productivity improvement goals established by the Agency under the President's Productivity Management Program would not be met.

MEDICAL DISTRICT INITIATED PEER REVIEW

Question: Would you briefly describe the objectives and history of the MEDIPRO Program?

Answer: The history of MEDIPRO follows: Peer review of the quality and appropriations of hospital care provided to the Medicare population has been required since the 1972 Bennett Amendment beginning with the PSROs (Professional Standards Review Organizations) and continuing through the PROs (Peer Review

Organizations). Veterans Administration medical centers have been exempted by statute from such peer review requirements. In early 1984 the Chief Medical Director (CMD) established a Task Force composed of field and VACO representatives to look at different options for implementing a PRO. In May 1985 DM&S began pilot testing a peer review model for the VA known as MEDIPRO (Medical District Initiated Peer Review Organization) in three medical districts. This model was based, in part, on the Medicare's PRO system. This is now being expanded to cover five additional Medical Districts representing involvement by approximately 25 percent of all VA medical centers. Systemwide implementation is planned for the first quarter, Fiscal Year 1987.

The objectives of the MEDIPRO Program are as follows:

- To establish a system of quality assessment and utilization review, based outside the medical facility, where facility practitioner-specific and patient-specific data would be evaluated by representative VA health care professionals to assess resource utilization and quality of care under a prospective resource allocation methodology.
- To ensure the provision of high quality patient care under a prospective resource allocation system.
- To assess completeness and adequacy of care to assure that quality care is provided by monitoring selected diagnostic categories.
- To review and evaluate the necessity and appropriateness of resurce utilization patterns at VA medical centers by studying such indices as:
  a. inpatient admissions/readmissions
  b. admission rejections
  c. ancillary services
  d. surgical procedures
  e. one-day stays
  f. length of stay by DRG
  g. discharge planning
  h. levels of care
- To evaluate the validity of diagnostic and procedure information to assure assignment to accurate categories.
- To provide constituent VAMCs with data illustrating patterns of care to use in facility-based quality assurance programs and continuing education of medical staff and medical facility management.
- To provide an environment which will facilitate participation by physicians in PRO functions.
- To develop data sets consistent with VA DM&S to accomplish:
  a. analysis of provider/practitioner and patient specific profiles
  b. study of patient outcomes and outcome trends per selected diagnostic category(ies).

Question: Was this initiated in the past?

Answer: Task forces and preliminary planning began in 1984.

Question: How many hospitals will be monitored in FY 1987?

Answer: With full implementation in FY 1987, all the Medical Districts, which includes the VA's 172 hospitals, will be monitored.

Question: How much will this cost us over the next ten years?

Answer: The cost over the next ten years is estimated at 3.4 million dollars annually. This estimate does not take into consideration inflationary trends.

SPECIAL THERAPEUTIC AND REHABILITATION ACTIVITIES FUND

Question: How do you plan to accomplish the FY 86 sequestration of $100,000 in Special Therapeutic and Rehabilitation Activities Fund?

Answer: Actual obligations in Special Therapeutics for 1985 were $2.1 million. Actual obligations through January 1986 are below plan and it is estimated that end-of-year obligations will also be below plan. If, indeed, this occurs, no special management action will be required to meet the sequester of $100,000.

The fund will be closely monitored throughout the remainder of the fiscal year. If it becomes apparent that obligations might exceed $2.2 million, individual field stations will be notified that they must reduce efforts to the 1985 level. If this occurs, the stations can only reduce the scope of contracts to the 1985 level or reduce the number of patients participating to the 1985 level, either of which has the effect of reducing revenues as well.

VA Loan Guaranty

The limitation of the FY 86 guaranteed loans has been raised from $11.6 billion to $17.4 billion. Your FY 87 budget justification on page 2-4 of Volume I indicates $13.9 billion is the amount guaranteed.

Question: Have you revised this estimate in light of the reduction in the interest and current loan activities?

Answer: VA has not revised the FY 1987 budget estimate for guaranteed loan volume. We are aware of the significant changes in the mortgage market since the FY 1987 estimate was formulated. In the near future, VA will be revising its budget estimates in conjunction with the FY 1986 OMB mid-year review.

Question: What reduction would you expect if the funding fee is raised to 2% in FY 87?

Answer: VA projects a 5% decrease in FY 1987 loan volume as a result of the increased fee.

Question: How would you explain the fact that when FHA increased their fee to 3.8%, the number of loans doubled their anticipated level?

Answer: At the beginning of FY 1984, the FHA program changed the structure of the collection of the insurance premium. Instead of the borrower paying ½ of 1% per month, FHA required payment of 3.8% of the loan amount up front. However, as with VA's funding fee, the insurance premium can be financed (added to the loan amount). VA cannot explain what impact, if any, this change in premium collection had on actual FHA loan volume.

Question: How long does it take to work a loan through the system?

Answer: For fiscal year-to-date 1986, 65% of the appraisals requested were completed within the established time standard of 15 calendar days.

If the loan is to be processed on the prior-approval basis, it is submitted to the VA for a certificate of commitment which assures the lender that VA has underwritten and approved the loan and will guaranty it when closed. In FYTD 1986, 74% of the requests for a certificate of commitment were processed within the time standard of 8 calendar days.

Loans processed on the automatic basis are not submitted to the VA until after they are closed. The lender performs all of the necessary underwriting and makes a decision, independent of the VA, whether to approve the loan. When the loan is approved, it is submitted to the VA for a certificate of guaranty. Thirty-six percent of such requests were processed within the established time standard of 15 calendar days. This time standard does not carry the same importance as those for prior-approval loans, since the loan has closed and the veteran is in the home. Automatic loans are, in most instances, considered guaranteed when closed and the guaranty certificate is verification of that for lender files and their use when selling loans.

Question: How long did it used to take?

Answer: Provided below is a chart stating the percentage of loans processed within the above mentioned time standards for Fiscal Years 1981 through 1985.

	Appraisals (15 days)	Certificate of Commitment-Prior Automatic (8 days)	Certificate of Guaranty Automatic (15 days)
FY 81	96%	97%	80%
FY 82	99%	97%	87%
FY 83	80%	76%	48%
FY 84	93%	96%	66%
FY 85	88%	90%	60%

Question: How long will it take in the future with reduced staffing?

Answer: It is difficult to project future processing times since staffing and volume are indefinite variables. We expect to remain within or close to the time standards established for VA processing of loan applications. We will continue to devote maximum available resources to maintain quality and timeliness.

Question: What percent of veterans obtaining VA-guaranteed loans are first-time users of the benefit?

Answer: For fiscal year-to-date 1986, approximately 87% of the loans guaranteed were obtained by first-time users. For FY 1985, the figure was approximately 89 percent.

Question: What kind of impact does staffing have on servicing loan defaults? Does this translate into a difference in cure rate?

Answer: VA is frequently instrumental in arranging a repayment agreement between a delinquent veteran and the loan holder through in-depth financial counseling and interceding directly with the loan holder on the veteran's behalf.

Currently, 81% of all GI loans reported in default are reinstated. During the first quarter of FY 1986, 50% of the reinstatements occurred after the loan holder advised VA it intended to foreclose. VA had more than 15,000 personal supplemental servicing contacts with these borrowers and was instrumental in the reinstatement of many of these loans.

A reduction in staffing could reduce supplemental servicing by VA, which helps to minimize foreclosures.

ACTIVATION OF FACILITIES

Question: At our 1984 hearing for the FY 85 VA Budget, you indicated that the VA was not able to isolate the portions of equipment related to activations in an actual year. You indicated that in FY 85 this information should be available. Would you now please indicate for each year, FY 85 and FY 86, the portion of the equipment funding that represents equipment related to facility activations?

Answer: During FY 1985, approximately 44% of our allocated equipment funds were for new activations. Through mid-March of FY 1986, about 45% of the allocated equipment funds were for this purpose.

Question: Would you please provide a list by location of the actual equipment (with a value over $100,000) that was provided in FY 84 and FY 85 for facility activations? Please also provide similar projections for FY 86 and FY 87.

Answer: Attached are lists of all equipment funds (value both over and under $100,000) allocated for new activations by

VAMC for fiscal years 1984, 1985, 1986, (allocated through February 28, 1986) and 1987 estimate.

Question: For each of the two years, would you list by facility activation location of the equipment (that has a replacement cost of $100,000 or more) that was transferred from the old building and facility to the new?

Answer: Central Office does not receive any report that indicates equipment transfer between the old and new facility related to an activation. VAMC's determine total equipment needs including transfers from the old to the new site. Central Office only receives requests for the new equipment.

Question: A review of the four FY 87 replacement and modernization projects and the Salem clinical addition indicates that the project activation costs for equipment vary from a low of 18% of the total estimated cost at Baltimore to a high of 38% at Dayton. Would you please give me the specifics of how you estimate the project activation costs for equipment and manpower?

Answer: Each project is evaluated to determine the estimated equipment requirements. This includes evaluating the project category, complexity, specialized diagnostic and treatment programs, number of beds and other workloads. The parameters for the equipment requirements are identified for planned projects by comparing equipment costs of similar projects of previous years. The costs for high technology treatment and diagnostic equipment for a project at an acute patient care facility far exceeds the equipment requirements for a project at a facility with less acute patient care programs. A total replacement/modernization project at a facility with acute care is projected to require $50,000 to $60,000 per bed to properly equip the new medical facility. A less acute facility would require $30,000 to $35,000 per bed. Other projects that do not involve beds must be evaluated separately. A clinical addition project resulting in the replacement, expansion, or addition of radiology, laboratory pharmacy, magnetic resonance imaging and dental would require a considerable amount of equipment. An electrical or fire and safety project may require very little or no additional equipment.

The estimate for determining the activation manpower requirements vary with each category of project. The requirements for overall staffing (FTEE) are reduced by offsetting the existing facility FTEE which may be utilized for a specific project. The procedures for determining staffing are outlined below:

a. Replacement Hospital - The current approach in forecasting staffing is to apply experience and comparisons of similar VA facilities to the specific mission and programs of the facility being considered. This approach produces a zero based staffing forecast which represents the staffing (FTEE) required to appropriately operate the replacement facility. The total FTEE for the replacement hospital, as outlined below, involves only medical care positions. Staffing is not included for trainee, research, canteen and the Department of Veterans Benefits programs. These positions are developed by the appropriate VA Central Office Service and are not considered in the medical care positions required for the facility. The first step in forecasting the total staffing for a replacement hospital is to establish the programs to be included. Major considerations in accomplishing this step include:

- hospital mission and complexity
- number and category of beds
- bed occupancy rate and average daily census
- other diagnostic and treatment services
- maintenance of new systems, high technology treatment modalities, equipment and environment
- unit dose pharmacy, supply distribution systems, laundry, fire station, cemetery, medical district office, water and sewage treatment plant, and research support.

The next step is to translate the established programs into a staffing forecast. Various procedures are applied to the program considerations as follows:

- The basic procedure determines the staffing necessary to support only the hospital beds and essential support functions (such as radiology, pharmacy, laboratory, nursing, dietetics, medical, surgical, medical administration, engineering, building management, supply, fiscal, personnel and other essential support services). This is the core staffing ratio concept which was devised as a comparative measurement for staffing of hospitals within the VA system. This concept provides a common reference point in the selection of an appropriate core staffing ratio (the number of employees per patient census). The application of the core ratio times the average daily patient census determines the staffing positions (FTEE) required for the hospital beds and essential support functions.

  Not included in the core ratio concept are the staffing requirements for other programs which support the delivery of care but are not directly related to hospital beds. The staffing required for each of these programs is calculated separately and added to the hospital bed staffing to determine the total positions (FTEE) for the facility. The major programs which are not included in the core ratio concept are as follows:

  (1) Outpatient Visits - Staffing for regular visits (10-10, compensation and pension, medical and surgical) equals one FTEE per 500 visits. Staffing for special visits (mental health, drug, day hospital, etc.) approximates one FTEE per 1,000 visits. Fee outpatient visits staffing equals one FTEE per 2,400 visits.

  (2) Other Diagnostic and Treatment Services - These include such programs as intensive care units, electron microscopy, alcohol and drug treatment, cardiac catheterization, hemodialysis, nuclear medicine, orthotics, pulmonary function, respiratory care, speech pathology,

spinal cord injury, super-voltage therapy, etc. Each of these services has its own staffing methodology which is applied to determine the total FTEE required to support these services.

(3) Staffing for other functions and programs such as laundry, fire station, water and sewage treatment plant, cemetery and research support is calculated separately in coordination with the appropriate VA Central Office program officials.

When the total medical care FTEE has been determined (staffing for hospital beds, other diagnostic and treatment services, outpatient visits, etc.) the replacement hospital's existing medical care FTEE is subtracted, and the resulting FTEE difference is the recommended forecast staffing for activation. If the hospital is a new facility the medical care FTEE calculated becomes the staffing required to operate the new medical center.

b. Nursing Home Care Units - Staffing (FTEE) is calculated at 95% patient occupancy at a core ratio of 1.03 positions per patient census which equates to 117 FTEE for a 120-bed unit.

c. Domiciliaries - Staffing is calculated at a core ratio of 0.3 positions per bed which equates to 60 FTEE for a new 200-bed unit.

d. Outpatient Care - The FTEE for the outpatient visit workload increase is calculated as previously described for a replacement hospital; however, outpatient care projects involve considerable new and/or expanded space and include new or augmented diagnostic and treatment services. Additional FTEE is therefore required (above the FTEE necessary to support the outpatient visit workload) and determined on individual project increases in facility square feet; required maintenance of new systems, high technology treatment modalities, equipment and environment; and new or augmented support functions or other diagnostic and treatment services.

e. Other Facility Projects - These include clinical improvements, major and minor expansions and modernizations, electrical, elevators, fire and safety improvements, seismic, research and education, and heating, ventilating and air conditioning projects. Many of these projects provide new, improved or expanded operational capabilities and may involve construction of new space. The FTEE is determined on individual project workload changes; increases in facility square feet; required maintenance of new systems, high technology treatment modalities, equipment and environment; and new or augmented support functions or other diagnostic and treatment services.

VETERANS ADMINISTRATION - DEPARTMENT OF MEDICINE & SURGERY

NEW ACTIVATIONS EQUIPMENT FUNDING -- FY1986
THRU FEBRUARY 28, 1986

STATION	REPLACEMENT EQUIPMENT	INITIAL EQUIPMENT
ALBUQUERQUE, N.M.	3,784,738	5,385,790
ALEXANDRIA, LA.	.	73,141
ALLEN PARK, MICH.	11,288	35,955
AMARILLO, TEX.	300,220	216,101
ANN ARBOR, MICH.	.	2,016,235
BALTIMORE, MD.	430,645	1,196,343
BATH, N.Y.	.	1,600
BATTLE CREEK, MICH.	2,700	245,244
BAY PINES, FLA.	77,471	708,693
BILOXI, MISS.	88,761	407,411
BIRMINGHAM, ALA.	357,225	1,003,704
BOISE, IDAHO	107,870	322,118
BROCKTON, MASS.	371,677	499,988
BRONX, N.Y.	.	9,110
BROOKLYN, N.Y.	72,000	110,982
BUFFALO, N.Y.	.	12,398
CHICAGO, ILL. (LS)	55,000	108,848
CHICAGO, ILL. (WS)	258,300	1,434,240
CHILLICOTHE, OH.	.	73,128
CINCINNATI, OH.	.	23,070
CLARKSBURG, W. VA.	46,300	34,000
COLUMBIA, MO.	.	69,760
DALLAS, TEX.	58,211	383,461
DANVILLE, ILL.	.	152,617
DENVER, COLO.	151,100	388,518
DUBLIN, GA.	50,070	34,576
DURHAM, N.C.	.	57,500
EAST ORANGE, N.J.	1,004,240	1,007,764
FARGO, N.D.	640,178	1,126,087
FRESNO, CA.	.	21,268
FT. MEADE, S.D.	36,400	67,080
GAINESVILLE, FLA.	.	128,260
GRAND ISLAND, NEB.	1,631	15,143
GRAND JUNCTION, COLO.	414,200	.
HINES, ILL.	203,802	372,878
HOT SPRINGS, S.D.	78,435	30,988
INDIANAPOLIS, IND.	75,335	3,207,609
IOWA CITY, IOWA	99,677	43,459
IRON MOUNTAIN, MI.	8,450	8,638
JACKSON, MISS.	1,675	5,822
KANSAS CITY, MO.	3,882	5,300
KERRVILLE, TEX.	.	18,511
KNOXVILLE, IOWA	.	10,989
LAKE CITY, FLA.	53,536	284,379
LEAVENWORTH, KAN.	135,786	52,279
LEBANON, PA.	64,650	35,775
LEXINGTON, KY.	20,925	43,335
LINCOLN, NEB.	146,400	9,986
LITTLE ROCK, ARK.	.	294,500
LONG BEACH, CA.	9,393	29,839
LOUISVILLE, KY.	.	297
MADISON, WISC.	.	13,805
MANCHESTER, N.H.	66,000	199,050

NEW ACTIVATIONS EQUIPMENT FUNDING -- FY1986
THRU FEBRUARY 28, 1986

STATION	REPLACEMENT EQUIPMENT	INITIAL EQUIPMENT
MARION, ILL.	49,383	14,524
MARION, IND.	520	11,500
MARTINEZ, CA.	.	122,330
MEMPHIS, TN.	1,051,210	1,875,493
MIAMI, FLA.	489,087	2,392,424
MINNEAPOLIS, MINN.	938,936	5,751,780
MONTROSE, N.Y.	214,100	258,990
MOUNTAIN HOME, TN.	148,908	485,540
MURFREESBORO, TN.	12,291	871,627
MUSKOGEE,OKLA.	.	95,300
NASHVILLE, TN.	182,952	771,590
NEW ORLEANS, LA.	34,590	491,958
NEWINGTON, CONN.	31,455	60,887
OKLAHOMA CITY, OKLA.	219,911	427,146
OMAHA, NEB.	240,689	1,697,102
PALO ALTO, CA.	441,674	2,607,215
PITTSBURGH, PA. (HD)	6,490	4,510
PITTSBURGH, PA. (UD)	43,292	93,196
POPLAR BLUFF, MO.	40,869	.
PORTLAND, ORE.	5,213,728	5,271,672
RICHMOND, VA.	36,722	53,134
SALISBURY, N.C.	33,090	8,415
SALT LAKE CITY, UTAH	.	56,392
SAN DIEGO, CA.	1,205,267	45,335
SAN FRANCISCO, CA.	1,802,838	2,404,824
SEATTLE, WASH.	503,334	1,550,836
SHREVEPORT, LA.	292,040	161,347
SIOUX FALLS, S.D.	154,050	324,844
SPOKANE, WASH.	.	23,537
ST. LOUIS, MO.	17,149	1,418
SYRACUSE, N.Y.	369,935	.
TAMPA, FLA.	.	3,381,533
TEMPLE, TEX.	396,897	1,063,681
TOMAH, WISC.	101,861	54,173
TUCSON, ARIZ.	474,928	1,465,719
TUSCALOOSA, ALA.	1,089,829	1,058,237
WASHINGTON, D.C.	32,642	132,226
WEST HAVEN, CONN.	.	48,226
WEST LOS ANGELES	.	18,108
WHITE RIVER JCT., VT.	186,254	.
WICHITA, KAN.	77,712	135,771
WILKES-BARRE, PA.	913,443	116,685
TOTAL	26,336,247	57,446,797

VETERANS ADMINISTRATION - Department of Medicine & Surgery

NEW ACTIVATIONS EQUIPMENT FUNDING -- FY1985

STATION	REPLACEMENT EQUIPMENT	INITIAL EQUIPMENT
ALBUQUERQUE, N.M.	8,625,930	4,484,515
AMARILLO, TEX.	45,000	450
AMERICAN LAKE, WASH.	23,259	39,256
ANN ARBOR, MICH.	60,529	234,794
BALTIMORE, MD.	711,395	186,922
BATH, N.Y.	.	344,611
BATTLE CREEK, MICH.	10,120	31,574
BAY PINES, FLA.	6,619	675,548
BILOXI, MISS.	623,839	1,063,594
BIRMINGHAM, ALA.	2,141,650	2,133,920
BOISE, IDAHO	87,576	881,364
BOSTON, MASS.	0	34,000
BOSTON, MASS. (OPC)	25,000	0
BROCKTON, MASS.	413,387	49,953
BRONX, N.Y.	0	243,167
BROOKLYN, N.Y.	72,000	875,591
CHICAGO, ILL. (LS)	29,210	799,983
CHICAGO, ILL. (WS)	104,967	418,883
CHILLICOTHE, OH.	92,212	215,122
CINCINNATI, OH.	205,934	527,689
CLARKSBURG, W. VA.	.	7,678
CLEVELAND, OH.	.	7,105
COLUMBIA, MO.	1,265	143,553
DALLAS, TEX.	1,072,876	1,438,125
DANVILLE, ILL.	.	126,888
DENVER, COLO.	2,031,531	3,621,905
DURHAM, N.C.	.	158,254
EAST ORANGE, N.J.	1,730,252	692,991
FARGO, N.D.	1,288,091	2,064,112
FAYETTEVILLE, ARK.	364,196	284,032
FRESNO, CA.	8,130	47,108
FT. MEADE, S.D.	221,261	33,270
FT. WAYNE, IND.	26,764	.
GAINESVILLE, FLA.	120,652	2,259,646
GRAND ISLAND, NEB.	141,438	15,630
HAMPTON, VA.	.	20,941
HINES, ILL.	445,300	295,855
HOUSTON, TEX.	3,363	52,316
INDIANAPOLIS, IND.	16,590	20,908
IOWA CITY, IOWA	79,901	303,817
JACKSON, MISS.	.	36,171
KERRVILLE, TEX.	686,632	91,451
KNOXVILLE, IOWA	.	105,714
LAKE CITY, FLA.	.	180,220
LEXINGTON, KY.	14,688	176,828
LINCOLN, NEB.	36,874	294,284
LITTLE ROCK, ARK.	300,624	2,157,374
LONG BEACH, CA.	604,227	444,684
LOUISVILLE, KY.	37,950	191,945

NEW ACTIVATIONS EQUIPMENT FUNDING -- FY1985

STATION	REPLACEMENT EQUIPMENT	INITIAL EQUIPMENT
MADISON, WISC.	20,410	70,990
MANCHESTER, N.H.	80,620	.
MARION, ILL.	248,010	293,658
MARION, IND.	10,000	13,819
MARTINEZ, CA.	907,938	638,946
MARTINSBURG, W. VA.	415,390	685,033
MEMPHIS, TN.	1,039,765	1,662,242
MIAMI, FLA.	1,333,929	2,058,358
MOUNTAIN HOME, TN.	421,967	615,307
MURFREESBORO, TN.	1,152,356	2,126,367
MUSKOGEE,OKLA.	65,769	459,033
NASHVILLE, TN.	96,005	882,685
NEW ORLEANS, LA.	2,270,697	4,601,381
NORTHAMPTON, MASS.	5,445	31,743
NORTHPORT, N.Y.	16,612	66,953
OKLAHOMA CITY, OKLA.	92,847	1,803,496
PALO ALTO, CA.	2,430,151	8,423,178
PHILADELPHIA, PA.	9,478	145,115
POPLAR BLUFF, MO.	10,400	49,810
PORTLAND, ORE.	2,684,376	4,034,837
PRESCOTT, ARIZ.	.	44,398
PROVIDENCE, R.I.	9,821	31,091
RICHMOND, VA.	94,663	2,925,998
ROSEBURG, ORE.	0	0
SALT LAKE CITY, UTAH	129,105	232,285
SAN DIEGO, CA.	104,020	270,176
SAN FRANCISCO, CA.	1,806,833	1,377,782
SAN JUAN, P.R.	.	10,195
SEATTLE, WASH.	446,615	2,127,039
SEPULVEDA, CA.	.	37,264
SHREVEPORT, LA.	32,200	951,475
SIOUX FALLS, S.D.	1,287,356	1,923,074
SPOKANE, WASH.	49,062	240,788
ST. CLOUD, MINN.	981	2,136
ST. LOUIS, MO.	181,645	179,377
TAMPA, FLA.	.	60,476
TEMPLE, TEX.	1,804,099	5,777,599
TOGUS, MAINE	5,750	34,079
TOMAH, WISC.	6,500	47,807
TUCSON, ARIZ.	1,228,834	2,587,515
TUSCALOOSA, ALA.	.	102,300
WASHINGTON, D.C.	28,216	1,289,865
WEST LOS ANGELES	.	48,304
WEST ROXBURY, MASS.	.	0
WHITE CITY, ORE.	.	2,460
WHITE RIVER JCT., VT.	.	46,495
WICHITA, KAN.	52,091	238,756
TOTAL	43,091,188	77,765,426

VETERANS ADMINISTRATION - Department of Medicine & Surgery

New Activations Equipment Funding -- FY1984

STATION	REPLACEMENT EQUIPMENT	INITIAL EQUIPMENT
ALBANY, N.Y.	.	3,172
ALBUQUERQUE, N.M.	.	3,410
ALEXANDRIA, LA.	26,400	3,000
ALLEN PARK, MICH.	89,361	142,567
ALTOONA, PA.	.	3,650
AMARILLO, TEX.	.	19,614
AMERICAN LAKE, WASH.	0	29,324
ANN ARBOR, MICH.	45,882	885,087
ASHEVILLE, N.C.	.	10,000
AUGUSTA, GA.	.	27,100
BATTLE CREEK, MICH.	.	3,869
BAY PINES, FLA.	324,284	3,428,157
BEDFORD, MASS.	187,028	14,761
BIG SPRING, TEX.	.	7,800
BILOXI, MISS.	205,310	122,026
BIRMINGHAM, ALA.	1,287,260	331,655
BONHAM, TEX.	.	5,170
BOSTON, MASS.	293,937	125,168
BROCKTON, MASS.	223,694	655,341
BRONX, N.Y.	.	297,293
BROOKLYN, N.Y.	37,596	482,810
BUFFALO, N.Y.	20,200	452,753
BUTLER, PA.	.	3,000
CANANDAIGUA, N.Y.	3,400	1,600
CASTLE POINT, N.Y.	.	3,378
CHARLESTON, S.C.	1,182,500	567,670
CHEYENNE, WYO.	.	4,500
CHICAGO, ILL. (LS)	910,021	13,367
CHICAGO, ILL. (WS)	465,853	573,354
CHILLICOTHE, OH.	524,975	1,029,042
CINCINNATI, OH.	644,929	1,996,223
CLEVELAND, OH.	4,181	1,980
COATESVILLE, PA.	.	295,423
COLUMBIA, MO.	21,250	417,611
COLUMBIA, S.C.	.	3,900
DALLAS, TEX.	152,062	509,713
DANVILLE, ILL.	542,313	198,876
DAYTON, OH.	.	89,000
DECATUR, GA.	.	114,512
DENVER, COLO.	4,465,826	3,663,671
DES MOINES, IOWA	.	13,608
DUBLIN, GA.	393,197	151,144
DURHAM, N.C.	1,142,112	337,259
EAST ORANGE, N.J.	182,945	75,325
FARGO, N.D.	205,000	113,000
FAYETTEVILLE, ARK.	109,074	74,175
FAYETTEVILLE, N.C.	.	4,600
FRESNO, CA.	.	205,918
FT. LYON, COLO.	.	194,645
GAINESVILLE, FLA.	1,974,868	2,417,534
GRAND ISLAND, NEB.	33,050	105,727
GRAND JUNCTION, COLO.	8,354	13,826
HAMPTON, VA.	36,332	115,850
HINES, ILL.	2,117,540	375,655

New Activations Equipment Funding -- FY1984

STATION	REPLACEMENT EQUIPMENT	INITIAL EQUIPMENT
HOT SPRINGS, S.D.	.	11,100
HOUSTON, TEX.	8,400	243,137
INDIANAPOLIS, IND.	417,893	310,181
IOWA CITY, IOWA	7,095	42,465
JACKSON, MISS.	15,699	137,073
KANSAS CITY, MO.	59,860	454,749
KERRVILLE, TEX.	36,400	296,620
LAKE CITY, FLA.	46,155	548,175
LEAVENWORTH, KAN.	.	223,000
LEBANON, PA.	.	5,500
LEXINGTON, KY.	745,945	995,115
LINCOLN, NEB.	925,845	150,797
LITTLE ROCK, ARK.	3,773,255	7,043,170
LIVERMORE, CA.	3,610	16,390
LONG BEACH, CA.	30,780	216,396
LOUISVILLE, KY.	114,640	179,875
LYONS, N.J.	42,070	44,700
MADISON, WISC.	134,590	191,185
MANCHESTER, N.H.	764,000	.
MARION, ILL.	.	149,022
MARION, IND.	104,000	194,345
MARTINEZ, CA.	.	66,565
MARTINSBURG, W. VA.	784,434	1,454,756
MEMPHIS, TN.	.	133,392
MIAMI, FLA.	45,325	1,526,340
MINNEAPOLIS, MINN.	.	6,000
MONTGOMERY, ALA.	.	3,000
MONTROSE, N.Y.	.	3,900
MOUNTAIN HOME, TN.	438,563	3,197,102
MURFREESBORO, TN.	70,390	283,772
MUSKOGEE,OKLA.	1,270,980	959,811
NASHVILLE, TN.	368,067	215,706
NEW ORLEANS, LA.	2,327,787	4,901,560
NEW YORK, N.Y.	-125,000	.
NEWINGTON, CONN.	72,000	3,700
NORTH CHICAGO, ILL.	8,956	162,665
NORTHAMPTON, MASS.	88,023	117,105
NORTHPORT, N.Y.	9,300	30,252
OKLAHOMA CITY, OKLA.	176,086	1,096,387
OMAHA, NEB.	.	0
PALO ALTO, CA.	3,534,073	437,871
PHILADELPHIA, PA.	.	17,937
PHOENIX, ARIZ.	.	36,000
PITTSBURGH, PA. (HD)	.	48,300
PITTSBURGH, PA. (UD)	66,087	155,505
POPLAR BLUFF, MO.	.	27,720
PORTLAND, ORE.	354,209	359,586
PRESCOTT, ARIZ.	.	305,450
PROVIDENCE, R.I.	.	4,616
RENO, NEV.	7,480	40,639
RICHMOND, VA.	103,391	1,155,285
SALISBURY, N.C.	.	23,880
SALT LAKE CITY, UTAH	35,800	417,471
SAN ANTONIO, TEX.	.	536,836
SAN DIEGO. CA.	.	3,000

New Activations Equipment Funding -- FY1984

STATION	REPLACEMENT EQUIPMENT	INITIAL EQUIPMENT
SAN FRANCISCO, CA.	8,750	134,304
SAN JUAN, P.R.	.	265,912
SEATTLE, WASH.	5,100,493	5,738,152
SIOUX FALLS, S.D.	.	36,092
SPOKANE, WASH.	31,021	16,946
ST. CLOUD, MINN.	.	3,000
ST. LOUIS, MO.	1,352,604	626,777
SYRACUSE, N.Y.	227,863	38,733
TAMPA, FLA.	.	678,634
TEMPLE, TEX.	0	286,071
TOGUS, MAINE	181,106	200,388
TOMAH, WISC.	104,170	43,744
TOPEKA, KAN.	12,867	33,648
TUCSON, ARIZ.	2,175,558	7,540,776
TUSCALOOSA, ALA.	.	17,200
TUSKEGEE, ALA.	.	0
WACO, TEX.	.	6,900
WASHINGTON, D.C.	380,523	735,303
WEST LOS ANGELES	36,400	272,632
WEST ROXBURY, MASS.	0	0
WICHITA, KAN.	144,916	628,981
WILKES-BARRE, PA.	.	21,260
WOOD, WISC.	.	8,000
TOTAL	44,483,193	67,257,370

VETERANS ADMINISTRATION - DEPARTMENT OF MEDICINE & SURGERY
NEW ACTIVATIONS EQUIPMENT REQUEST - FY 1987

ESTIMATED PRIOR TO SLIPPAGE

STATION	ESTIMATED EQUIPMENT COST OF
Albany,NY	$800,000
Alexandria,LA	2,000,000
Altoona,PA	121,000
Amarillo,TX	3,488,000
American Lake,WA	50,000
Ann Arbor,MI	2,200,000
Augusta,GA	7,000
Battle Creek,MI	310,000
Big Spring,TX	655,000
Biloxi,MS	180,000
Birmingham,AL	1,728,000
Boston,MA	50,000
Brockton,MA	5,360,000
Brooklyn,NY	600,000
Buffalo,NY	533,000
Castle Point,NY	1,240,000
Charleston,SC	1,800,000
Chicago(LS),IL	2,050,000
Chillicothe,OH	170,000
Cincinnati,OH	55,000
Clarksburg,WV	2,240,000
Cleveland,OH	904,000
Coatesville,PA	50,000
Dallas,TX	792,000
Danville,IL	25,000
Dublin,GA	117,000
Durham,NC	1,711,000
East Orange,NJ	3,580,000
Fayetteville,AR	382,000
Fayetteville,NC	3,160,000
Fresno,CA	2,500,000
Ft.Howard,MD	200,000
Grand Junction,CO	800,000
Hines,IL	1,100,000
Hot Springs,SD	40,000
Indianapolis,IN	2,500,000
Iowa City,IA	8,359,000
Jackson,MS	41,000
Kansas City,MO	121,000
Lake City,FL	600,000
Leavenworth,KS	85,000
Lexington,KY	3,903,000
Little Rock,AR	55,000
Loma Linda,CA	160,000
Long Beach,CA	802,000
Los Angeles,CA	2,180,000
Louisville,KY	3,000,000
Lyons,NJ	1,270,000
Marion,IL	700,000
Marion,IN	163,000
Memphis,TN	445,000
Miami,FL	1,344,000
Miles City,MT	50,000
Minneapolis,MN	31,300,000
New Orleans,LA	956,000
Northport,NY	510,000
Oklahoma City,OK	180,000
Omaha,NE	1,312,000
Perry Point,MD	2,000

VETERANS ADMINISTRATION - DEPARTMENT OF MEDICINE & SURGERY
NEW ACTIVATIONS EQUIPMENT REQUEST - FY 1987·

ESTIMATED PRIOR TO SLIPPAGE

STATION	ESTIMATED EQUIPMENT COST OF
Philadelphia,PA	1,500,000
Pittsburgh(UD),PA	2,879,000
Portland,OR	3,500,000
Richmond,VA	56,000
San Diego,CA	840,000
San Francisco,CA	4,550,000
Sepulveda,CA	235,000
Sheridan,WY	3,200,000
Shreveport,LA	1,750,000
Spokane,WA	43,000
St.Louis,MO	278,000
Syracuse,NY	343,000
Tomah,WI	84,000
Tuskegee,AL	250,000
Waco,TX	1,000,000
Washington,DC	10,000
West Los Angeles,CA	947,000
White River Jnct.,VT	970,000
Wichita,KS	600,000
Wilkes Barre,PA	50,000

DELEGATION

Question: What is the VA's current position on delegation?

Answer: Our current position is that the most critical input from medical center personnel occurs during the early planning phase, including conceptual development and preliminary design. In the past year, new initiatives have enabled medical center management and staff to have a major role in project planning. These initiatives include VA medical center participation in Architect/Engineer selection, direct interaction between the Architect/Engineer and the medical center during design, and greater involvement in project review. Implementation of the Booz Allen core process recommendations will further strengthen the entire planning process and the medical center's involvement in that process. There are also instances where, for specific major projects, the delegation to the medical centers of working drawing design and/or construction can be highly effective and desirable.

Question: What steps have you taken to answer that question raised by the Subcommittee as to how you assure that each medical center publicizes its mistakes as well as successes so that each new project can avoid the pitfalls encountered by the previous ones?

Answer: All medical centers will submit monthly progress reports to VA Central Office. During the construction phase, intermediate inspections will be performed by a VA Central Office construction inspection team, as performed on all major construction projects. Information relative to mistakes and successes will be gathered and reviewed by the appropriate technical services, with the responsibility to take appropriate actions, with respect to future construction planning.

Other sources that will be used are Post Occupancy Evaluations and the review of Completion Items. These often identify mistakes and successes for use in the planning of other major construction projects, including delegated major projects.

BOARD OF VETERANS APPEALS

Question: Why was the Board of Veterans Appeals reduced in FY 86 after the Congressional reports had directed against this?

Answer: The conference report on the VA's 1986 budget included a reduction of approximately $8 million in the General Operating Expenses appropriation. Based on this level of funding, the Board of Veterans Appeals was exempted from any reductions, as directed in the report. When the bill was being considered in the Senate, however, another $23 million was cut. In light of this action, it was decided that the magnitude of the reduction to the appropriation as a whole would force the Board to share in the reduction. This decision was based on the fact that the Board's response time had dropped by close to 60% since 1983, thus indicating that the timeliness problem that had existed was virtually eliminated.

In an ongoing effort to maintain this greatly improved rate of processing appeals, and following a careful review of operating plans, we will be able to increase the Board's 1986 employment ceiling, thus restoring the 10 FTEE cut due the appropriation cut.

Question: The consultant studies for the Board were $24,000 in FY 85 and $23,000 in FY 86. Why are they being increased to $75,000 in the FY 87 proposal?

Answer: The Board of Veterans Appeals uses contractual support for the Appellate Index and Retrieval System (AIRS). Costs include preparation of the annual index of BVA decisions required by FOIA and inclusion of research material, laws and regulations. This provides the attorneys and medical staff with an up-to-date index of research and reference material. This is an on-going cost.

In FY 1985, installation of a Wang office automation system was begun at the Board. A final phase of this project is conversion of the Board's existing Veterans Appeals Control and Locator System (VACOLS) to the Wang equipment. (VACOLS provides positive case management, docket control, and locator functions for appeals before the Board. Ancillary tasks of the system are work measurement, individual attorney productivity and statistical record keeping.) The additional consulting service funds requested for FY 1987 are needed for contractor system development support required for the final phase of the automation project.

SUPPLY DEPOTS

Question: What conclusions can be drawn from the extensive Coopers and Lybrand study of the Supply Depots?

Answer: Coopers and Lybrand presented their findings and recommendations of the Supply Depot system study to the Acting Administrator and other VA officials on March 18, 1986. Following Agency review and final acceptance by the Administrator, study findings and recommendations will be released and briefings for House and Senate Veterans Affairs Committees and House and Senate Appropriations Committees will be scheduled. Each of the recommendations is currently under careful Agency review for implementation strategy development.

DESIGN FUND

Question: How much funding has gone into the design fund in FY 1985 and FY 1986?

Answer: Appropriated for FY 1985: $15,000,000. Appropriated for FY 1986: $15,000,000 (less $14,531 due to Gramm-Rudman).

Question: Would you please list the specific design projects funded in this manner?

Answer: Attached are the lists of the specific design projects funded in FY 1985 and FY 1986.

Question: Would you briefly describe the design fund objectives besides that of reducing the time to construction completion after advanced planning?

Answer: Other design fund objectives other than reducing the time frame between construction and advance planning are: more complete design and improved cost estimates when construction funds are requested, and reducing the impact of inflation.

Question: Is not the VA now engaged in a pilot test of the design fund concept, as we directed when we made the first appropriation for the fund?

Answer: No. The test was for the FY 1985 design fund. As of March 31, 1986, twelve of twenty-three contracts have been awarded. Delays have been due to: late submission of FY 1985 design list to Congress, selecting projects for delegation and developing delegation procedures, switching design from in-house to an outside Architect/Engineering firm, using prototype nursing home design, and deferring projects to later budget years.

Question: Is the VA conducting evaluation or is it being done by a contractor?

Answer: The Agency is conducting an evaluation.

Question: When will it be complete?

Answer: We expect to be complete by December 1986.

Question: How was it determined that $19 million was required for FY 1987 in view of the greatly reduced number of major construction projects?

Answer: The $19 million is based on approximately $300 million of major construction other than replacement/modernization projects which we intend to request funds for construction in FY 1988.

Question: Why should we provide any design fund monies before we get the results of the pilot test?

Answer: Even though we had some start-up problems and other unique events, we were able to award some of the FY 1985 design fund projects earlier than if there had not been a design fund. We expect to do better with the FY 1986 design fund even though it has been delayed due to changing budget conditions. With the ongoing, interdependent nature of the construction program, it would be beneficial to continue the design fund pending the final results of the pilot test. This program has shown that awards can be made sooner which will enable the Agency to activate new facilities earlier than in the past.

MEDICAL AND CEMETERY FACILITY CONSTRUCTION PROJECTS
FY 1985 DESIGN FUND OBLIGATIONS

LOCATION	PROJECT TITLE
Tomah, Wisconsin	Modernize Buildings 403 and 404
Wood, Wisconsin	Renovate Building 43 for Domiciliary
Long Beach, California	Upgrade Secondary Electrical Distribution
Poplar Bluff, Missouri	Electrical Distribution System Improvements
Jackson, Mississippi	Install Sprinkler System
Knoxville, Iowa	Fire and Safety Improvements
Cleveland (Wade Park), Ohio	Fire and Safety Improvements
Cleveland (Brecksville), Ohio	Fire and Safety Improvements
Big Spring, Texas	Renovate Surgery
Chicago (West Side), Illinois	Fire and Safety and Patient Privacy Improvements
Hampton, Virginia	Electrical Systems Modernization
Hines, Illinois	180-Bed Psychiatric Replacement Facility
San Diego, California	Non-Structural Seismic Corrections
Topeka, Kansas	Fire and Safety, Patient Privacy and Electrical Improvements
Tucson, Arizona	120-Bed Nursing Home Care Unit
Durham, North Carolina	Parking Garage
Florida National Cemetery	Develop 13,000 Gravesites and Construct Administration Building
St. Louis (Jefferson Barracks), Missouri	Seismic Corrections
Temple, Texas	408-Bed Replacement Domiciliary
Coatesville, Pennsylvania	New Kitchen and Dining Hall
Togus, Maine	Clinical Improvements, Building 200
Syracuse, New York	Parking Garage
Lyons, New Jersey	Renovate Buildings 7 and 57

MEDICAL FACILITY CONSTRUCTION PROJECTS
FY 1986 DESIGN FUND OBLIGATIONS

LOCATION	PROJECT TITLE
Milwaukee, Wisconsin	Fire and Safety Improvements
Salem, Virginia	Outpatient, Clinical and Nursing Home Care Unit
Salisbury, North Carolina	180-Bed Geropsychiatric Building
Salt Lake City, Utah	Correct Electrical Deficiencies
Waco, Texas	Renovate Buildings 10 and 90
White River Junction, Vermont	Research and Education Building
Wilkes Barre, Pennsylvania	60-Bed Nursing Home Care Unit

VA Management and Disposal of Foreclosed Properties

The VA has almost 20,000 properties in title and over 14,000 additional properties pending acquisition as a result of foreclosures of VA guaranteed loans. Another 2,000 properties are acquired monthly.

Question: What are you doing to reduce the cost to manage these properties and to dispose of them rapidly as possible?

Answer: Reducing management and disposition costs is being achieved primarily by reducing the average holding time for acquired properties. Over the past year we have instituted several measures to reduce holding time for acquired properties. This has resulted in a decrease in average holding time from 10.6 months for properties sold in FY 85 to 9.4 months for properties sold in FY 1986 (through February 1986). During calendar year 1985, VA achieved a 33% reduction in the percentage of properties in the inventory over 12 months, and a 39% reduction in the percentage of properties in the inventory over 24 months. The inventory as of the end of February 1986 was 11% below the high point reached in March 1984. We have established a goal calling for sales to exceed new acquisitions by 10 percent. Emphasis has been placed on selling the properties that have been in the inventory for the most time. Auctions have been used in several locations to deal with an excessive build-up of properties in the older portion of the inventory. The disposition of numerous older properties from the inventory has permitted the local offices to concentrate their efforts on the more marketable portions of their inventories.

Stations have been encouraged to increase their use of paid advertising, and they have been given guidelines for their advertising budgets. In most cases, these guidelines will result in greater efforts to advise the public of the availability of VA-owned properties.

We recently entered into an agreement with the National Association of Realtors (NAR) providing for their member boards to assist VA offices in marketing acquired properties. We anticipate that the agreement will result in an increase in the number of NAR members participating actively in our sales program. Our local offices will also benefit from the expert advice that will be made available to them by the local boards of Realtors.

Question: What have you done in changing your procedures to determine when you acquire the property rather than pay off the remainder of the guaranteed amount?

Answer: The Deficit Reduction Act of 1984 required VA to determine the net value of a property prior to foreclosure of a GI loan and acquire the property only in those cases where the net value is greater than the indebtedness less VA's guaranty. Shortly after this Act was passed, VA established procedures and notified its regional offices how to calculate the net value. For FY '85, the sum of 10%, representing VA's acquisition, management and disposition expenses, was deducted from the fair market value of the property. This matter was reviewed in October 1985 and revised so that 10½% is now deducted from the fair market value for VA's acquisition, management and property disposition expenses. Final regulations to implement these changes are expected to be issued shortly.

DEPARTMENT OF VETERANS BENEFITS

Question: The number of veterans, dependents and survivors receiving Compensation, Pension and Education benefits has been decreasing. Would you please provide the number of persons receiving these benefits in FY 75 and also the number of DVB pesonnel administering these programs?

Would you also prepare a table showing how each of these numbers has changed numerically and in percentage for each year through FY 85?

Answer:

COMPENSATION CASELOAD

(end of year)

Fiscal Year	Veterans	Survivors	Total	Numeric Change	Percent Change
1975	2,220,169	368,955	2,589,124		
1976	2,232,213	367,601	2,599,814	10,690	0.41%
1977	2,247,315	364,881	2,612,196	12,382	0.48%
1978	2,258,790	362,189	2,620,979	8,783	0.34%
1979	2,266,243	360,688	2,626,931	5,952	0.23%
1980	2,273,589	357,971	2,631,560	4,629	0.18%
1981	2,279,070	355,011	2,634,081	2,521	0.10%
1982	2,274,634	350,357	2,624,991	(9,090)	-0.35%
1983	2,263,335	346,291	2,609,626	(15,365)	-0.59%
1984	2,250,782	341,702	2,592,484	(17,142)	-0.66%
1985	2,240,277	335,612	2,575,889	(16,595)	-0.64%

PENSION CASELOAD

(end of year)

Fiscal Year	Veterans	Survivors	Total	Numeric Change	Percent Change
1975	1,006,168	1,259,191	2,265,359		
1976	1,003,248	1,263,229	2,266,477	1,118	0.05%
1977	1,031,179	1,267,694	2,298,873	32,396	1.43%
1978	1,024,091	1,260,081	2,284,172	(14,701)	-0.64%
1979	973,837	1,168,518	2,142,355	(141,817)	-6.21%
1980	921,623	1,092,814	2,014,437	(127,918)	-5.97%
1981	874,799	1,026,245	1,901,044	(113,393)	-5.63%
1982	824,341	957,353	1,781,694	(119,350)	-6.28%
1983	780,522	895,516	1,676,038	(105,656)	-5.93%
1984	729,526	801,305	1,530,831	(145,207)	-8.66%
1985	690,397	739,166	1,429,563	(101,268)	-6.62%

DEPARTMENT OF VETERANS BENEFITS

(continued)

CHAPTER 31 VOCATIONAL REHABILITATION

Fiscal Year	No. In Training	Numeric Change	Percent Change
1975	24,840		
1976	29,449	4,609	18.55%
1977	33,231	3,782	12.84%
1978	31,018	(2,213)	-6.66%
1979	29,470	(1,548)	-4.99%
1980	28,666	(804)	-2.73%
1981	29,818	1,152	4.02%
1982	30,919	1,101	3.69%
1983	30,574	(345)	-1.12%
1984	29,024	(1,550)	-5.07%
1985	26,901	(2,123)	-7.31%

DVB PERSONNEL ADMINISTERING C&P AND EDUCATION PROGRAMS

Fiscal Year	Average Employment	Numeric Change	Percent Change
1975	9,546		
1976	10,007	461	4.83%
1977	9,968	(39)	-0.39%
1978	9,344	(624)	-6.26%
1979	9,042	(302)	-3.23%
1980	8,334	(708)	-7.83%
1981	7,757	(577)	-6.92%
1982	7,352	(405)	-5.22%
1983	6,833	(519)	-7.06%
1984	6,513	(320)	-4.68%
1985	6,137	(376)	-5.77%

DEPARTMENT OF VETERANS BENEFITS

(continued)

CHAPTER 34 VIETNAM ERA VETERANS

Fiscal Year	No. in Training	Numeric Change	Percent Change
1975	2,691,566		
1976	2,821,514	129,948	4.83%
1977	1,937,874	(883,640)	-31.32%
1978	1,521,840	(416,034)	-21.47%
1979	1,278,538	(243,302)	-15.99%
1980	1,106,889	(171,649)	-13.43%
1981	948,526	(158,363)	-14.31%
1982	777,686	(170,840)	-18.01%
1983	644,390	(133,296)	-17.14%
1984	528,468	(115,922)	-17.99%
1985	402,281	(126,187)	-23.88%

CHAPTER 35 DEPENDENTS

Fiscal Year	No. in Training	Numeric Change	Percent Change
1975	87,962		
1976	99,751	11,789	13.40%
1977	107,628	7,877	7.90%
1978	107,693	65	0.06%
1979	102,956	(4,737)	-4.40%
1980	95,584	(7,372)	-7.16%
1981	94,586	(998)	-1.04%
1982	90,988	(3,598)	-3.80%
1983	79,702	(11,286)	-12.40%
1984	71,194	(8,508)	-10.67%
1985	61,958	(9,236)	-12.97%

DEPARTMENT OF VETERANS BENEFITS
DEBT COLLECTION

On Page 20-11, you point out that in FY 85 as a result of the Department's efforts 13,832 accounts with a value of $43.7 million (including interest, administrative costs and marshall fees) were referred to the Department of Justice and 86,046 accounts with a value of $46.9 million were referred to district courts.

Question: What was the cost to the Department to refer these cases to the courts?

Answer: The Department maintains figures on overall debt collection costs. However, we do not maintain separate figures on referrals.

Question: How much in previously outstanding debts were actually collected in FY 1985?

Answer: In FY 1985, the total amount of collections and offsets was $317 million dollars. We cannot provide figures regarding the amount of previously outstanding debts actually collected in FY 1985.

Question: What percent of the cases of outstanding debt does this represent?

Answer: This figure is not available.

Question: What percent of the monetary debt does the funds collected represent?

Answer: The total collections and offsets for FY 1985 represents 16% of the total amount of the debt.

Question: Would you please provide some data on the cases referred to the courts and the debts collected as a percentage of the debt for the last five years and also provide the monetary figures showing the amount of the debts owned?

Answer: A total of 490,819 accounts representing $277.5 million have been referred to District Counsel since May 1980 with a cash collection amount of $44.8 million. There has been a total of 44,931 accounts paid in full, 14,657 compromised, 322 waived, District Counsel have terminated collection action on 9 accounts, and adjustments have been made on 255,941. Of the 174,959 accounts on hand in the District Counsel, 30,819 accounts (17.6%) are in a repay plan. Since March 1978, a total of 183,353 accounts representing $277.1 million have been referred to Justice with a cash collection of $30.0 million. A total of 13,584 accounts have been paid in full, 9,266 compromised, 183 waived, and Justice has terminated collection action on 729 accounts. Adjustments have been made on 124,061 accounts. Of the 35,530 accounts on hand in Justice, 698 accounts (1.9%) are in a repay plan. The percentage of the debts collected by year, for the last five years is unavailable.

STATUS OF THE ENERGY PILOT

Question: Could you please give us a status report on the energy conservation pilot requested in our FY 86 Appropriations Senate Report?

Answer: A committee has been established with representatives of Engineering Service, Procurement Service, Fiscal Service and the General Counsel.

The selection process, for a typical hospital to conduct this pilot test project has been narrowed to four and should be completed within the next 30 to 60 days.

The necessary documents and procedures for implementing the test program are currently being researched and developed. This will allow us to expedite the accomplishment of the test project upon enactment of legislation to remove our major obstacle which is the current lack of authority for Federal agencies to enter into the multi-year contracts necessary for the outside investors to recover their costs. Section 4501 of the budget reconciliation legislation, currently before Congress, will effectively remove this obstacle if passed in its current form (as revised on December 16, 1985).

Barring unforeseen complications, our current data indicates that a contract for an energy services pilot test project could be accomplished within seven months after passage of the enabling legislation.

Veterans' Job Training

The Emergency Veterans' Job Training Program for unemployed Vietnam era and Korean War veterans has dropped the name emergency from its title and been extended for one year.

Question: Has the program been successful in the past?

Answer: Since the program's inception, a total of 39,409 veterans have entered training programs (through April 14, 1986). Of this total, 11,359 veterans have successfully completed training and an additional 6,371 veterans are currently in training programs (these two categories represent a total of 45% of the veterans who have entered training programs). The remaining 21,679 veterans (or 55%) terminated their training prior to completion of the program.

The March 1986 unemployment estimates reflect a Vietnam-era veteran unemployment rate of 6.1% (unadjusted) when compared to the general unemployment rate of 7.5% (unadjusted). Because of the improvement in the economy, which has resulted in improvements in the unemployment rate for Vietnam-era veterans, and the availability of other federal programs, additional funds are not being requested for this program.

Finally, Centaur Associates Inc. is in the process of preparing a follow-up study report that will provide information on the employment success rate of veterans one year after the completion of training. This report is scheduled to be completed around September 1986.

Question: Why did you not request additional funding for this extension in your 1986 justification?

Answer: Based upon the favorable economic conditions, along with the improved unemployment rates, and the availability of other job training programs, additional funding for this program has not been shown to be necessary.

Question: In your 1987 budget, what item or items would you be willing to delete to provide an additional $65 million for the extension?

Answer: As mentioned earlier, due to the significant improvement in the unemployment rates of Vietnam-era veterans (the unemployment rate has decreased from 11.4% in January 1983 to the March 1986 unemployment rate of 6.1%) and Korean conflict veterans, we believe the Veterans Job Training program has served its purpose. We do not believe it would be prudent to institutionalize the program under the current favorable economic conditions. The program also duplicates, to some extent, job assistance programs provided by the Veterans Administration and other government agencies.

Question: How much funding is there in your 1986-1987 budgets and those of the Department of Labor to provide employment or training for unemployed veterans?

Answer: The VA's 1986 budget includes an unobligated balance of $17.6 million (as of May 5, 1986 $11.5 million remains) for the Veterans Job Training program. The VA also has other programs that provide certain veterans with vocational training and employment assistance. Veterans with remaining GI Bill benefits can use their benefits for vocational training programs and on-the-job training. It is estimated that $92.9 million in 1986 and $80 million in 1987 will be spent for veterans in vocational or technical training. In addition, $22.1 million in 1986 and $19.6 million in 1987 will be spent for on-the-job training for Vietnam era veterans. The VA will also spend approximately $101 million in 1986 and $106 million in 1987 on vocational rehabilitation benefits for service-connected veterans. The General Operating Expenses appropriation of the Veterans Administration also includes $21.7 million (and 572 FTEE) in 1986 and $22.5 million (and 593 FTEE) in the Vocational Rehabilitation and Counseling Service in the Department of Veterans Benefits. The primary purpose of this service is to provide the services and assistance necessary to enable service-connected disabled veterans achieve the maximum independence and employability possible.

The Department of Labor also has several programs that are either specifically for veterans or give priority to veterans. Among these programs are those administered by the Assistant Secretary for Veterans Employment and Training ($127.2 million in 1986 (after sequestration) and $131.5 million in 1987), targeted veterans employment assistance under the Job Training Partnership Act (approximately $9.7 million in 1986 and $9.9 million in 1987), and the State Employment Services (not entirely for veterans, however veterans do receive priority) in the State Unemployment Insurance and Employment Service Operations appropriation (approximately $750 million in 1986 and also in 1987).

Question: What was the unemployment rate for the Vietnam era veterans early in 1983 when the Veterans Emergency Job Training legislation was first contemplated?

Answer: The unemployment rate for Vietnam-era veterans in January 1983 was 11.4 percent.

Question: What is the unemployment rate for the Vietnam-era veterans at the current time?

Answer: As of March 1986, the unemployment rate for Vietnam-era veterans was 6.1 percent.

Question: How does this compare to the overall national unemployment rate?

Answer: The March 1986 unemployment rate for Vietnam-era veterans is about 1.4 percentage points below the nationwide unemployment rate of 7.5 percent (unadjusted).

VETERANS CANTEEN SERVICE

Question: Each medical center runs some services such as food and retail merchandising that are entirely self supporting and require no appropriations from Congress.

How do you plan to accomplish the FY 86 sequestration of $8,104,000 in the canteen service revolving fund?

Answer: The implementation plan for the Canteen Service projects reductions in obligations as follows:

Reduction of equipment purchases	$1,350,000
Inventory reductions	4,104,000
Reduction of occupancy and other miscellaneous expenditures	302,631
Staffing reductions (attrition)	229,420
Service hours reduction	2,117,949
Total	$8,104,000

The impact of these reductions will be:

- Reduction of remodeling and construction programs initiatives which are planned and implemented in concert with the VA construction program by freezing purchases of equipment.

- It is current policy that medical center canteens stock a basic assortment of merchandise that is carried for the need and well-being of authorized customers. Canteens at all medical centers will be required to reduce budgeted expenditures for inventories to meet Gramm-Rudman requirements.

- The Veterans Canteen Service reimburses the medical care appropriation of the Department of Medicine and Surgery for occupancy charges (for rent, utilities, maintenance and repair). With reduced sales of approximately $20,000,000 due to reductions in inventory and other miscellaneous expenditures (i.e. reduced travel, reduced shelving purchased for replacement purposes, reduced freight charges for equipment and merchandise transferred between canteens), occupancy charge reimbursements would be expected to be reduced by $302,631.

- Historically, in operating as a business, the Veterans Canteen Service has attempted to employ the appropriate number of personnel needed to perform its service as required at each VA medical Center. It is estimated that the Veterans Canteen Service can effect selective staffing reductions through attrition.

- In reviewing our current obligations, it appears, at this time, that it will not be necessary to furlough any individual; however, we need to retain this option in the event there is some unexpected occurrence before the end of the year.

LOAN GUARANTY PROGRAM

The Loan Guaranty Revolving Fund was established July 1, 1961 to fund the non-administrative expenses involved in the management, operation and sale of properties acquired when veteran borrowers fail to keep up their payments on VA guaranteed or insured loans. Reserve is derived principally from the sale of loans.

This program provides credit assistance to eligible veterans, active duty servicepersons and certain surviving spouses seeking to buy, build or repair a home, condominium or mobile home.

The guaranty may be made up to 60 percent of the loan or $27,500 whichever is less. Public Law 98-369 increased the funding fee from one half percent to one percent of the loan amount. The legislation also authorized the collection of a one percent fee on the sale of VA acquired property on terms (vendee loans). Proposed legislation would increase the fee from one percent to two percent in 1987.

This program was initially set to assist veterans, just out of the service, buy their first home.

Question: What would you guess is the percentage of your last year's loans that meet this description?

Answer: Loan Guaranty entitlement is available until used. No data is available concerning the time which elapses between a veteran's release from the service and the use of an entitlement. However, during 1985 three-fourths of the total loans closed were made to Vietnam Era, Post Vietnam Era, and servicepersonnel.

Question: Do you foresee any of the problems with this program in FY 1986 and FY 1987?

Answer: With enactment of Public Law 99-322 on May 23, 1986, the Veterans Administration's 1986 guaranteed home loan credit limitation was increased to $38.3 billion. At the $38.3 billion limitation, the Agency should be able to operate the program without change through the fiscal year.

The President's Budget reflects no limitation for 1987, so the program would operate as it has in the past, prior to sequestration. If sequestration were to occur in 1987, the Agency will have a revised estimate of loan volume prior to the sequestration process.

Question: What percentage of your loans in each of the last three years were vendee loans?

Answer: The percentage of loans in each of the last three fiscal years which were vendee loans is as follows:

FY	TOTAL LOANS	HOME LOANS	VENDEE LOANS	PERCENT
1983	262,390	245,122	17,268	6.6
1984	271,747	251,588	20,159	7.4
1985	199,586	178,931	20,655	10.3

Last year's testimony indicated that there are almost seven vendee loan delinquencies for each standard loan delinquency.

Would you please indicate what was the ratio for each year from FY 83 to FY 85 and what do you estimate for FY 86 and FY 87?

The following chart compares the delinquency rate on vendee loans with guaranteed loans. The delinquency rate is defined as the percentage of defaults pending to loans outstanding. In order to make a valid comparison between vendee and guaranteed loan delinquencies, we used the number of defaults pending more than 3 installments for vendee loans, since guaranteed loan defaults are not reported to the VA until they are 3 months past due.

	Delinquency Rate	
Fiscal Year	Vendee Loans	Guaranteed Loans
1983	4.01	2.14
1984	6.55	2.18
1985	7.21	2.48
*1986	7.34	2.80

*As of 2/28/86.

We project the FY 1986 and FY 1987 delinquency rates to remain about the same or improve slightly.

VA CONSTRUCTION

The institution of DRG's has had the effect of decreasing length of stay and diminishing the need for beds.

Question: What has been done in advanced planning and project design to reduce the size of medical centers in the projects "coming down the pike?"

Answer: We are evaluating future bed requirements in light of DRG's and will size future construction projects accordingly. Recent data reflecting experienced reductions in length of stay are being incorporated into the assigning of proposed projects through the running of the VA/GAO Bed Sizing Models. There are a number of other initiatives currently being developed which may result in reductions in the size of future medical centers. Facility design standards for specific clinical and administrative functional areas are being developed. Revisions to space criteria are providing more flexibility in adapting to differing hospital missions. The implementation of the Booz, Allen and Hamilton, Inc. consultant study recommendation to prepare Facility Development Plans for each medical center will provide for earlier, more comprehensive project scope definition and will provide a strategic framework for identifying individual construction projects which may be smaller and less costly.

PRODUCTIVITY

Question: How do the increased productivity goals you were given relate to the operating budget and construction?

Answer: As part of the Government-wide initiative to increase productivity, the Department of Medicine and Surgery will reduce staffing levels across the board by 1% in Fiscal Year 1987. In preparation for the Fiscal Year 1987 Target Allowance distribution process, it is planned that these reductions in staffing levels will be primarily in "indirect" or non-patient care, i.e., administrative, building management, engineering (including construction), etc. It will be at the Medical Center Director's discretion as to how the assigned "one percent productivity" FTEE reductions will be translated into the specific types of occupations to be reduced.

The impact of this employment reduction on the VAMCs' operating budgets in 1987 may be lessened because of anticipated offsets in employment requirements due to improvements inherent in automation as well as potential improvements in service delivery based on Most Efficient Organization (MEO) studies.

MANAGEMENT INITIATIVES TO IMPROVE PRODUCTIVITY

Question: What are some specific examples of how you increased productivity in your operations and capital investment?

Answer: To respond to the question that you asked, we surveyed all of our Central Office program offices and received the following list of initiatives that are currently underway. It would be unfair to characterize this as an all-inclusive list since management initiatives to improve productivity are undertaken at all levels of management within the Department of Medicine and Surgery. The list does provide a good snapshot view of such activities from the national perspective.

- Beginning with the 1985 fiscal period, the Department implemented a resource allocation system based on Diagnostic-Related Groups (DRGs) which matches patient care requirements with necessary resources, and allocates funding on that basis for all acute inpatient care. For FY 1986, we added to the DRG system a tool for allocation of long-term care, called "Resource Utilization Groups," as well as a capitation-based allocator for ambulatory care. These three models aid significantly in rationalizing the allocation of resources to the field, by promoting shorter lengths-of-stay, focusing attention on cost/clinical efficacy trade-offs in the minds of our clinicians, and improving the management of information available to local, regional and national managers of the VA health care system. We are developing other models to further refine this approach for future years. All these models will enable the VA to promote efficient and effective delivery of care.

o The VA audiology program is developing a nationwide computer network to expedite furnishing hearing aid supplies and prosthetic devices to the hearing impaired. Hearing aids currently issued within the Veterans Administration are provided through 58 major and 21 satellite Audiology and Speech Pathology programs. A large stock level of hearing aids is maintained at each of the major programs and each major program assists the satellite programs in maintaining a smaller stock of hearing aids. Eligible veterans are provided with hearing aids and batteries through this program. More than 43,200 hearing aids were issued by the VA during FY 1985 with a total program cost of over $8 million for hearing aids, batteries and hearing aid repairs.

To ensure that hearing-impaired veterans benefit from the advances in new technology, hearing aid manufacturers are asked to submit their most recent instruments for contract consideration annually. Hearing aids that are placed on the annual contracts are purchased for the VA by the Prosthetics Distribution Center (PDC) at Denver, CO, and then sent to each of the major programs nationwide. When a veteran is issued a hearing aid, paperwork generated by the audiology program is sent to the PDC requesting a replacement hearing aid. Currently, there is a 10 to 14 day period needed for the hearing aid to be replaced in the clinic's stock. The delay in obtaining replacement hearing aids necessitates maintaining a number of each type of hearing aid that is on the annual contract.

A management initiative planned for FYs 1986 and 1987 involves the networking of all 58 major audiology programs with the PDC. This system will eliminate the mailing of paperwork requesting replacement of hearing aids and allow each program to be in direct contact with the PDC's ADP inventory hardware. Replacement aids will be shipped immediately and, instead of a 14 day replacement period, hearing aids will be able to be replaced in 3 or 4 days. It is anticipated that the streamlining of this program can save the VA approximately $1 million in the reduction of the number of hearing aids that any one major or satellite program will have to maintain in its stock. The majority of the major programs currently has the necessary ADP hardware in their programs. The cost to fund dedicated telephone lines and the modifications that need to be made to the current ADP equipment at the PDC will be minimal.

o Joint VA/DoD purchase of high cost, high technology equipment.

In FY 1985, in conjunction with the Air Force, 18 Computerized Tomography (CT) units were purchased using specifications developed jointly by the VA and the AF and a competitive bid system. These were purchased at a total cost of $8,952,000 or

$497,333 per machine. Retail price was $18,290,400. This method of purchase resulted in a savings of $9,338,400.

It is anticipated that we will purchase several Magnetic Resonance Imaging (MRI) units in FY 1987 and that the same competitive bid system will be utilized.

Use of mobile CT and MRI units is being encouraged for hospitals with a relatively low volume requirement and as an interim measure for larger hospitals. This reduces the costs and inconveniences of transporting patients to other hospitals or imaging centers. It eliminates the professional component of contract or fee-for-service charges. It also provides better patient care by allowing the patient's physician to more closely monitor and "tailor" the examination.

- Conversion of contract cardiac surgery programs to in-house programs at VAMCs in Tucson, AZ; Seattle, WA; and Birmingham, AL.

- Establish an in-house liver transplant center so that each liver transplant will not have to be individually funded on a fee-for-service basis.

- Anticipated management intitiatives for reducing pharmacy costs for FY 87 include:

  Restricting formulary addition of new therapeutic agents to those classified by FDA as I-A (representing significant therapeutic gain or advantage) and I-B (moderate therapeutic gain or advantage). The introduction of I-C products (no therapeutic gain or advantage) would only be permitted when they are less expensive than the products to be replaced.

  Encouraging review of usage of nutritional food supplements to outpatients with a 10% reduction goal. Expenditures for these products in FY 85 exceeded $12 million.

  Exploring the feasibility of mailing prescriptions by 3rd or 4th class instead of current 1st class method. DM&S mailing costs payment to postal service for FY 85 was approximately $25 million. Pharmacy Service mailings represent the highest volume and cost at most DM&S health care facilities. Additionally, the present practice of supplying veterans with franked business reply envelopes to request prescription refills, if changed to "stamp required" envelopes, would save approximately $3 million annually.

- A plan to integrate executive and management development that will shift the focus of training activities to the medical center and local community and reduce the use of training activities that require travel and high cost tuition. Elements of the plan that will facilitate this shift include use of mediated learning packages, use of the EDVENT software package that identifies courses and providers around the country, and identification of VA-developed management/executive training programs that can be reproduced and disseminated for little cost. The plan also calls for greater use of senior executives in the development of subordinate managers. Training programs offered in FY 86 will emphasize the senior manager's responsibility and accountability for developing managerial skills of subordinates. The Executive Development program will continue to determine its effectiveness in this regard and preliminary is expected in mid-FY 87.

- The Department plans to initiate its own Peer Review Organization in FY 86 to place greater emphasis on monitoring the quality of care and resource utilization.

- In April, 1985 Booz, Allen and Hamilton, Inc./RTKL Associates, Inc. completed a comprehensive study of the Agency's health care facility planning, design and construction process. The study identified advantages in streamlining both the process and organization of the construction activity. The study provided a schedule which for the most part anticipates implementation of the construction process changes prior to organizational changes. The study estimated that savings of 25 to 30 FTEE may be possible through streamlining of staff functions.

- The ongoing review of surgical equipment between November, 1984 and September, 1985 by Surgical Service included 325 individual requests for surgical equipment. The total dollar value of disapproval items was approximately $6,000,000. A portion of items disapproved were deemed inappropriate technology for the requesting stations, others were disapproved to be reconsidered for substitution of less expensive but still technically appropriate equipment. This review also included approval of other involved services, such as Continuing Education Resources Service for TV equipment and Medical Service, where Surgery and Medicine would be using purchased equipment. Review of requests for new and replacement surgical equipment will continue on an ongoing basis.

- The Decentralized Hospital Computer Program (DHCP) has been in process since FY 1983. In October 1985, DM&S contracted with Price Waterhouse to conduct a Post-Implementation Evaluation (PIE) of DHCP Initial CORE. The study protocol calls for: (1) the quantification, to the extent possible, of the costs and benefits in monetary terms; (2) the identification and evaluation of non-monetary (intangible) benefits, for example, better information management and improved service to the veteran; and (3) an examination of how cost savings associated with productivity gains have been redirected to other tasks. By doing this we will be able to compare the costs of developing, installing, and maintaining the Initial CORE system with the monetary and non-monetary benefits realized from the system. Since FULL CORE is not completely implemented nationwide, it was not included as a part of this evaluation. The issuance of the final study report was submitted in May, 1986.

- We have in place a pilot program initiated by the Congress to procure Advanced Technology/High Cost Equipment in a "joint venture" relationship with the private sector. We are reviewing initial expressions of intent from the medical centers at this time. The level of interest is very high and the potential savings are significant. The savings not only include the initial capital outlay but the tremendous economic impact on operations for very expensive technology such as lithotrypters and magnetic resonance imaging. The initial funds are $10,000,000 for this fiscal year. In order to qualify under this program, equipment costs per project proposal must be at least $500,000.

o Agent Orange-related research requirements are under continuing review for relevance and cost effectiveness. This review indicates that the conduct of a planned new research initiative, that is, a Case Control Study of Lymphoma in FY 1987, does not meet those evaluation tests and, therefore, is not a feasible study. Accordingly, a decision has been made to eliminate this research effort which will result in cost savings of approximately $50,000 to the Agency without any significant impact on the search for answers to the relationship(s), if any, between possible exposure of Vietnam veterans to Agent Orange and the health care conditions reported by them.

Action is being taken to abolish in FY 1987 the VA's Chloracne Task Force (CTF) at the Washington VA Medical Center, currently assigned responsibility for the review of Chloracne-related issues. The functions of the task force will be assumed by existing staff of the Agent Orange Projects Office, VA Central Office. This decision was made on the basis that the goals of the CTF have been, or will be, accomplished by the end of FY 1986.

o Medical Research Service has upgraded existing automatic data processing equipment as well as data base information retrieval systems in order to continue to provide the most accurate and timely responses to queries. These enhancements will allow the Service to continue to accomplish its workload at reduced staff levels.

o Increased numbers of VA dental assistants have been trained, and are currently functioning, as Expanded Function Dental Assistants (EFDAs) to provide certain aspects of dental care at less cost. If training funds are available in FY 1986, the numbers of EFDAs will be expanded in FY 1987.

o A new data base, the Dental Activity System (DAS), was implemented in FY 1986. The DAS collects detailed information on patient care services, providers and facilities. By 1987, this information will be used to analyze dental care delivery throughout the Agency. Implicit in the use of these analyses is the potential to effect informed cost reductions via improved provider productivity, resource allocations, staffing levels, and a cost component of quality assurance.

o Laboratory Diagnostic Related Groups were introduced in December, 1985 to eighteen VA medical centers. Another twenty VAMCs will develop their LDRGs beginning in March, 1986. LDRGs are physician-designed concise packages of DRG-specific test groupings for screening, confirmation and monitoring of disease. The cost reduction mechanism effected by using LDRGs instead of random "shotgun" multitest ordering is accomplished by choosing only a few highly specific tests that are approved by the most senior members of the VAMC staff. When combined with Pathology Service's Instrument Cost Accounting Method (ICAT) discussed below, the laboratory is able to identify the instruments that are most cost-effective for test performance.

o Instrument Cost Accounting Technique (ICAT) for Pathology Service

This method has been used for over a year by Pathology Service to collate cost/test/instrument data for all VAMCs. Over 60 chemistry, 20 hematology and 20 microbiology tests have been cost accounted. Tabular data has been prepared that will be sent to all VAMCs by newsletter, demonstrating the relative differences in cost/test based on the type of instrument used.

Expected cost avoidance will occur as laboratory managers begin to compare their own instrument costs with other VAMCs using the same instrument at a lower cost. Tests chosen by the LDRG method (described above) can be incorporated into the ICAT to allow laboratory managers to choose the least costly method to perform tests.

o Managing Clinical Costs

This management initiative to reduce costs in laboratories and pharmacies is actually a management information handbook that describes the actual utilization of laboratory tests, FTE and resources by peer group comparison of VAMC laboratories. The first edition, published in March, 1984 was well-received by all medical center top management and laboratory management officials. Its effectiveness is attributed to the use of bar graphs for each set of peer laboratories that display comparative utilization of personnel, salary dollars and expenditures for reagents, supplies, blood, fee basis, rental lease and contractual arrangements.

o This is a new management tool designed for use by regional and medical center management that characterizes the productivity/efficiency of VAMC laboratories, based on their actual clinical activity and complexity. The PROLAB Index was developed by utilizing FTE/test, cost/test, worked minutes/test to describe efficiency, as well as clinical activity (based on a scale of 1 to 4), functional complexity (on a scale of 0 to 109) and workload (raw count). The Index provides a composite macronanalysis of all VAMC laboratory producitivity, which is defined as the effective utilization of labor and resources in the production of a product (test). Cost avoidance will occur as laboratory and medical center managers review their own laboratory's position on the PROLAB Index grid (actually a plotted point on a graph), and decide which of the efficiency factors (FTE/test, cost/test or minutes worked/test) are causing increased costs. Once the high cost area has been identified, Managing Clinical Costs (above) can be used to pinpoint the actual source of the pverexpenditure, e.g., too many FTE/workload, high reagent costs, high fee basis costs, etc.

- o We have initiated a special emphasis program to reduce the average length of inpatient stay for treatment of alcohol and/or drug dependence at a large number of VA medical centers.

  The program guidance advises that, "Program leaders should employ models of care which emphasize short hospitalizations and earliest possible transition into alternative and less costly environment, such as the outpatient clinic setting or the contract community-based residential treatment program."

  Guidance explicitly advises all specialized substance abuse programs that the "average length of stay in an acute care program with a typical veteran population should not exceed 21 days."

  According to our latest available statistical reports, there are 33 VA alcohol and/or drug dependence treatment program locations where this recommended length of stay is exceeded. This new guidance regarding limited length of stay was issued September 27, 1985, in DM&S Program Guides (G-12, M-2, Part X, Revised, and G-1, M-2, Part XXI).

- o Earlier discharge from VA hospital treatment is facilitated under authority of P.L. 99-166, Section [illegible]01, which will permit approximately 5,000 veterans in inpatient treatment to be discharged an average of 2 days earlier and to experience relapse with rehospitalization 30% less frequently during the 9 months following discharge from the hospital. These projections of cost-effectiveness are drawn from the Administrator's Report to the U.S. Congress on the VA's Pilot Program for Contracted Care and Treatment and Rehabilitation Services in Community-Based Treatment Facilities for Eligible Veterans Suffering from Alcohol or Drug Dependence or Abuse Disabilities, dated March, 1984.

- o Through designation of a Community Services Coordinator at each VA medical center, Social Work Service has expanded linkages with State and Area Agencies on Aging in support of joint planning and coordination in the development and delivery of services to patients requiring long-term care services. Joint conferences, training activities, and local program initiatives are underway between VA medical centers and appropriate agencies within their primary service areas to ensure integration and coordination of VA and community resources in the continued development of a comprehensive system of community and institutionally-based health and social services.

  Expansion and integration of community and institutionally based health and social services will expand availability of alternative levels of care and enable DM&S to utilize its acute and long-term care services in the most clinically appropriate and cost effective manner.

PRODUCTIVITY EXPENDITURES

Question: What expenditures have you made to increase productivity?

Answer: Various ongoing programs such as Decentralized Hospital Computer Program (DHCP), Most Efficient Organization (MEO) studies, State-of-the-art medical equipment and programs that are alternatives to inpatient care (e.g. Hospital Based Home Care, Adult Day Health Care, Ambulatory Care, etc.) have all contributed to the VA's ability to better serve veterans in a stable resource environment.

HEALTH SERVICES RESEARCH AND DEVELOPMENT SERVICE

Question: The Health Services Research Program provides the VA with a vehicle for testing ways to improve health care delivery.

Question A: Can you give us some specific examples of how this program has demonstrated the ability to increase the efficiency of the VA's medical system?

Answer: The primary benefit of the HSR&D program is in integrating research with clinical and administrative practice -- toward helping managers advocate interventions based on scientifically substantiated data -- as exemplified by our HSR&D Field Programs. Currently, nine field programs are funded. The latest program, at Palo Alto, was funded in June 1985. The nine programs encompass 36 VA medical centers.

As of March 31, 1985, the eight HSR&D field programs then in operation reported 97 ongoing or completed projects. Of this number, 58 were funded locally (by the HSR&D field program); 19 through the HSR&D Investigator-Initiated Research program; and 20 from primarily non-VA sources. In addition, field programs were collaborating with the HSR&D Service in conducting 11 Service-directed projects. For the period April 1, 1984 to March 31, 1985, programs reported 1,254 episodes of technical assistance and consultation, ranging from simply assisting investigators with research designs to extensive consulting with managers to improve veterans health care. For example, the Region 4 field program consulted on an on-admission testing program that reduced pre-operative length of stay at VAMC Ann Arbor. At VAMC Portland, HSR&D staff consulted on a program for reviewing physicians' prescribing practices for controlled medications, to reduce the potential for their abuse by patients. The study resulted not only in formal integration of the program into the hospital's quality assurance procedures, but also in a systematic review of all of the hospital's quality assurance procedures.

The Investigator-Initiated Research Program complements Field Programs' ability to conduct high quality HSR&D relevant to VA needs. The HSR&D Service reviews all projects for relevance to VA needs, as well as their scientific adequacy. Seven projects were completed in 1985 and filed final reports; 41 projects are being supported in FY86. Among the many examples of how these programs have improved the efficiency of the VA health care system are the following:

- Dr. Lawrence Z. Rubenstein and colleagues at VAMC Sepulveda found that Geriatric Evaluation Units (GEUs) yielded significant health and morale benefits; their costs were more than offset by savings in such areas as acute hospitalization and nursing home care. The CMD encouraged VAMCs to establish additional GEU units.

- A randomized clinical trial at VAMC Seattle concluded that the medical center could shorten hospital stay without decreasing treatment effectiveness. The hospital shortened treatment stays from 6 to 2 weeks, reducing costs without reducing treatment effectiveness.

- Dr. J. C. Benson and colleagues at VAMC Durham found that they could reduce costs and urinary tract infections by providing no special cathetar meatal care regimen. At the study site alone implementation of the conclusions is expected to save the hospital $10,000 per year in supplies; the unneeded nursing care can be redirected to other pressing patient care needs.

- A new brochure encouraging flu shots developed and evaluated by investigators in Seattle was estimated to eliminate 14 influenza-related hospitalizations and save nine lives in a single epidemic year at that one hospital.

- John E. Martin, Ph.D., of VAMC Jackson, Mississippi introduced aerobic exercise, taste-cue monitoring, and educational interventions to improve blood pressure control. He found that a clinic treating 1000 hypertensives could save the VA approximately $10,000 per year, and reduce reliance on drug therapy.

Question: The Health Services Research Program provides the VA with a vehicle for testing ways to improve health care delivery.

Question B: How much of this research is directed by the VA and how much is initiated by the researchers themselves?

Answer: Activities initiated by the researchers accounted for 86% of the FY86 HSR&D budget; by VA Central Office,14%, as described further below.

Researcher-initiated activity encompasses the two major HSR&D programs: Investigator Initiated Research and the HSR&D Field Programs. The Investigator-Initiated Research Program encourages and supports projects sponsored and conducted by VA researchers, clinicians, and administrators to meet their identified information requirements. The IIR program represented 40% of FY86 budget.

HSR&D Field Programs integrate VA medical center and community research capabilities with patient care needs, to conduct high quality health services research to improve veterans health care. Each field program develops its own research agenda based on local need, and operates with the guidelines established by the HSR&D Service. The HSR&D Service reviews annually each program's progress and plans for the next year. The Field Program was allocated 46% of the HSR&D FY86 budget.

The Special Projects program represents VA-initiated activities of two primary types. In 1985, the HSR&D established Service-Directed Research as part of its Special Projects program. Through this mechanism, the HSR&D Service designs and manages selected projects intended to produce critical information needed for decision-making. The need for information may be identified by Congress, the Administrator, Chief Medical Director, other DM&S program officials, or the HSR&D Service. Since this program is relatively new, few activities have been completed. They include: development and testing of a registry of spinal cord injured veterans; and development of a protocol to evaluate the cost-effectiveness of adult day health care relative to nursing home care. Service Directed Research used 7% of the FY86 HSR&D budget. The HSR&D Special Projects Office, whose primary responsibilities are for research and technology assessment and technology transfer also used 7% of the HSR&D FY86 budget. Among that office's accomplishments initiated in 1986 are: preparation of targeted bulletins to disseminate results of HSR&D projects to those who can use them to improve patient care; and drafting technology assessments of Magnetic Resource Imaging and Extracorporeal Shock Wave Lithotripsy.

Question C: Do you feel comfortable with that balance?

Answer C: Since 1981, the HSR&D Service has devoted considerable effort to developing the capacity to conduct health services research in the VA to meet critical needs. Based on the advice of a broad range of VACO managers, researchers, and our Scientific Review and Evaluation Board, we have struck vital balances on two critical issues:

1) centralized policy guidance versus decisions by individual program managers -- the VACO HSR&D Service provides explicit guidance about program objectives, VA R&D policies, and reporting requirements, but allows individual program and project managers to manage their programs and projects;

2) researcher-initiated projects that reflect immediate clinical and administrative practice needs in the field versus centrally-directed projects to meet needs identified by Congress, by the Administrator, Chief Medical Director, other DM&S VACO officials, or the HSR&D Service.

Regardless of who initiates a project, each project funded by the HSR&D Service is pre-determined through structured review procedures to be both relevant to VA health care needs and scientifically adequate.

The HSR&D Service's ability to conduct Service-Directed Research projects depends largely on the infrastructure created by the HSR&D Field Programs and sustained through the investigator-initiated research program, to provide the capacity to conduct high quality research. Critical desired studies must be directed centrally to ensure selection of appropriate research questions and design of needed protocols; such studies, e.g., the adult day health care evaluation, can then be accomplished cost-effectively with the established structure. provided sufficient funds are made available for these specific purposes, without jeopardizing the viability of the infrastructure that makes their conduct possible. Up to this fiscal year the balance of 46%, 40% and 14% has been satisfactory. Congressionally mandated studies and the Department's needs for centrally directed research may change the balance in FY87.

Question D: Please explain the rationale behind the proposed reorganization [of the Health Services Research and Development Service].

Answer: The Department of Medicine and Surgery is realigning management of the HSR&D Service to a newly created Office of Planning, Evaluation and Systems Development, headed by Miss Marjorie R. Quandt, the Assistant Chief Medical Director. This realignment will strengthen the existing functions of HSR&D, and place those functions squarely in the "systems development" arena. Most observers of HSR&D see its functions as "evaluative" and "developmental," so this move from the Department's official research establishment to the Planning, Evaluation and Systems Development entity is seen as reflective of that reality.

It may be of interest to note that HSR&D Service was originally part of the Department's planning structure, but was subsequently moved into research; thus, in some limited respects, this realignment is a return to previous orientations. However, we envision a significantly expanded "operational" role for HSR&D, in determining future directional alternatives for the Department in management and organizational activities; the concept of "productivity" and "efficiency" in its many forms; health and medical technologies (especially high technology equipment); and resource applications in future years. Also, we intend to strengthen evaluative responsibilites of HRS&D in aiding the Chief Medical Director's development of broad policy objectives and strategic plans. With such changes in mind, placing the organization among our designated planners is appropriate.

We do not plan with this realignment to impede HSR&D investigator-initiated research activities; in fact, dependent on the availabiltiy of future-year appropriations, we would envision significant growth in those activities.

In summary, we are convinced this realignment is a positive development in the evolution of an effective, creative and contributive Health Services Research and Development office. We see the realignment as a key element to addressing those needs.

Question E: Would you please provide the Subcommittee with a written report on the reorganization before May 1, 1986 and would you provide this report before you implement any changes?

Answer: No formal study was completed in respect to the HSR&D realignment. This adjustment to the DM&S structure was not considered a major change, relative to our usual groundrules governing reorganizations within the Agency. In the informal discussions which preceded the decsion to realign the organization, the Department's principal "matrix" managers, including the Chief Medical Director and his Deputy, the Associate Deputy Chief Medical Director, and the Director for Operations, each agreed that this change made imminently good sense; was consistent with the management needs of a major health care organization in the 1980's and 1990's; and, was appropriate to enable HSR&D to evolve its new role as the Department itself is changing perspectives and goals.

The Chief Medical Director has approved the basic realignment; however, since the realignment was one of several changes affecting the Planning, Evaluation and Systems Development Office (which itself is a "new" entity), the entire organizational package is pending currently before the Administrator. His final concurrence and approval will be necessary prior to implementation of specific actions.

For your information, we are attaching a copy of the paper justifying the Planning, Evaluation and Systems Development reorganization. We hope this information satisfactorily responds to your question.

MEMORANDUM FROM JOHN W. DITZLER, M.D., CHIEF MEDICAL DIRECTOR

Date APR 1 8 1986

From Chief Medical Director (10)

Subj Management Improvement - Planning and Systems Development

To Administrator (00)

1. The purpose of this memorandum is to request approval to implement management improvements which will impact planning, evaluation, and systems development functions within the Department.

2. The organizational improvements within DM&S approved in May 1985, were directed at realigning the "macro" organization, i.e., the infra-structure of the Department. At that time, I stated that a second-tiered analysis of subordinate organizations would follow to effect needed structural and process refinements. This second-tiered analysis has been completed on the portions of the organization involving planning, evaluation, and systems development. The results of this analysis are discussed in the attachment to the memorandum.

3. The primary features of this proposal include:

- Retitling the position of ACMD for Planning Coordination to the ACMD for Planning, Evaluation and Systems Development.
- Establishment of a new organization, under the direction of the ACMD for Planning, Evaluation and Systems Development, through consolidation and/or transfer of the following staffs and functions:
  - o ACMD for Planning Coordination
  - o Systems Development Office
  - o Health Services Research and Development
- Establishment of a DM&S Reports and Statistics Service, under the direction of the ACMD for Planning, Evaluation and Systems Development.

4. I believe these organizational changes will enable the Department to more effectively respond to the increasing demands and expectations associated with planning, evaluation and systems development activities. Significant improvements in operational effectiveness will be achieved based on the establishment of an organizational framework which clearly assigns responsibility and accountability for these critical functions in a single organization.

5. This proposal has been coordinated with selected Agency Staff Offices (Controller, General Counsel, Program Planning and Evaluation, Personnel and Labor Relations, and Information Management and Statistics). Each of these offices have concurred with the proposal. Suggestions that these offices have communicated to the Department have been incorporated into the proposal as appropriate.

6. I fully support the concept presented and believe that implementation will make major improvements in the planning, evaluation and systems development process in DM&S.

JOHN W. DITZLER, M.D.

APPROVE ____________

DISAPPROVE ____________

SEE ME ____________

____
EVERETT ALVAREZ, JR.
Acting Administrator

ISSUE PAPER

I. PURPOSE: The purpose of this Issue Paper is to provide information concerning the reorganization of Planning Coordination and Systems Development.

II. DISCUSSION: Organizational improvements within DM&S approved in May 1985, were directed at realigning the "macro" organization, i.e., the infra-structure of the Department. A second-tiered analysis of subordinate organizations to effect needed structural and process refinements is underway. This second-tiered analysis has been completed on the portions of the organization involving planning, evaluation, and systems development. Based on the analysis, organizational improvements are being proposed.

III. SPECIFIC CHANGES PROPOSED: The primary features of this proposal include:

- Retitling the position of ACMD for Planning Coordination to the ACMD for Planning, Evaluation and Systems Development.
- Establishing a new organization, under the direction of the ACMD for Planning, Evaluation and Systems Development, through consolidation and/or transfer of the following staffs and functions:
  - o ACMD for Planning Coordination
  - o Systems Development Office
  - o Health Services Research and Development Service
- Establishment of a DM&S Reports and Statistics Service, under the direction of the ACMD for Planning, Evaluation and Systems Development.

IV. JUSTIFICATION: These organizational changes will enable the Department to more effectively respond to the increasing demands and expectations associated with planning, evaluation and systems development activities. Significant improvements in operation effectiveness will be achieved based on the establishment of an organizational framework which clearly assigns responsibility and accountability for these critical functions in a single organization.

V. ORGANIZATION IMPACT: There will be no adverse impact on other organizational components within the Department. The transfer of Health Services Research and Development Service to the ACMD for Planning, Evaluation and Systems Development will place this office in the optimal organizational setting to carry out a program of focused administrative research to meet the Department's needs for an integrated health care delivery system and evaluation of high technology to enhance this system. Integrating this function with planning and other developmental functions will improve the Department's capability to analyze and revise internal management activities to increase effectiveness and efficiency within the framework of the planning and evaluation process.

The Reports and Statistics function (at times called "Medical Statistics") was performed traditionally in DM&S by a Service under the ACMD with responsibility for planning. Based on the reasoning that the function should be more appropriately assigned as a staff office closer to field operations, it was consolidated in 1982 with the Medical Information Resources Management Office (MIRMO-10B/ADP). In the intervening time, MIRMO has concentrated its resources on establishing and implementing an effective decentralized computerization initiative in all our field facilities. Given the enormity of this task, and the general scarcity of Central Office manpower, some customary reports and statistics functions were deemphasized or discontinued.

There is consensus within the Department that reestablishing a Reports and Statistics Service at this time is appropriate and necessary. Reestablishing a central statistical function within the Planning, Evaluation and Systems Development Office will reinvigorate a much needed capability. The Reports and Statistics Service will have a Department-wide management and coordinative responsibility related to the overall requirements for data, reports, analysis, estimating, projecting and archiving. It is planned that this Service will maintain a close liaison with the Office of Information Management and Statistics (70) and the Office of Data Management and Telecommunications (30).

The mission of the new Reports and Statistics Service will be two-fold: Statistical data and reports management and coordination and statistical analysis. It would serve to coordinate/integrate statistical activities, such as statistical modeling, data bases, legislative impact, program standards and criteria, and ad hoc surveys and analyses. The organization envisioned would also provide for an optimum environment for setting and accomplishing priorities related to the management of information and data.

Statistical modeling will be developed and maintained for bed sizing and workload estimates. Legislative analysis will deal with estimating cost, workload and staff requirements of proposed legislation. Data base responsibilities would include the development of new data elements required by new legislation or programs as well as new ways of using data, such as creation of a longitudinal file for population analyses. Ad hoc surveys and analyses would be conducted as required to obtain data needed for top management and program support analyses. Standards and criteria would be developed to provide base lines for program planning. All of these areas are interrelated and necessary for an efficient and effective functioning of Departmental Planning, Evaluation and Systems Development activities, and of operational and program management functions.

No conflict will occur between Reports and Statistics Service and program statistical capabilities existing in Dentistry, Pathology, Quality Assurance and other DM&S elements. Such individual capabilities serve the needs of the user offices better than could occur from a central point. These program activities, however, especially as they relate to data requirements, will be closely coordinated with the Reports and Statistics Service to avoid duplication and overlap, to ease the burden on the field facilities, and to assure that the needs of the Department's top management are also served. Program offices for which individual statistical capability cannot be justified will be supported by the Reports and Statistics Service.

The proposal should improve statistical interface with all Departmental elements, including MIRMO, since MIRMO would be freed of a peripheral function not clearly associated with its primary mission. MIRMO will be able to concentrate on the major responsibility of management of ADP as it relates to computer and software development, acquisition and management.

There will be no conflict with the statistical functions performed by the Office of Information Management and Statistics (70), and no functional change is anticipated in this office's relationship with the Department. The IMS office performs a function for the entire Agency similar to the function the new Reports and Statistics Service will perform for the entire Department of Medicine and Surgery. This was recognized in the past, for example when MIRMO was established vis-a-vis the Office of Data Management and Telecommunications. The Department's continuing relationship with IMS should improve, since, under this proposal, IMS will gain a principal contact point in the Department. IMS will continue to manage reporting systems which cut across departmental lines, such as AMIS, to provide overall population statistical data and analysis, and to perform a biometrics function.

In summary, re-creation of a viable Reports and Statistics function is a crucial need for the Department, which can be met through approval of this proposal. The Reports and Statistics function is to be properly aligned within the Department's Planning, Evaluation and Systems Development Office, yet is planned as a supportive organization to Department-wide requirements for analysis, monitoring and overall control of data, data systems and reporting. This new organization's approval will not add to MAMOE staffing needs, and any staffing requirements therefor will be met from within existing resources available.

VI. PERSONNEL IMPACT: No adverse impact on existing personnel is anticipated, since the organizational changes proposed involve a consolidation of functions rather than a reduction.

VII. MANPOWER MANAGEMENT IMPACT: None.

VIII. FISCAL AND RELATED IMPACT: None anticipated.

QUESTIONS SUBMITTED BY SENATOR LEAHY

SURPLUS LAND

Question: According to recent press report, the Veterans Administration medical center in Los Angeles has a large amount of unused land. This hospital has 42 parking lots, a 9-hole golf course, tennis courts, and acres of unused land. It is estimated that this land, which borders on Beverly Hills, is worth $2 billion. Will the VA be disposing of this land in 1987?

Answer: As part of the budget process, the Administration identified 109 acres at the VA medical center West Los Angeles as excess to the needs of the Veterans Administration. The value of this property along with 42 acres at VAMC Sepulveda, California has been estimated at $360 million by the General Services Administration. It is our intention to excess property at these locations which is not needed by VA now or in the future. We are currently studying this matter to be certain that the proposed land disposal can be accomplished without compromising our ability to meet future requirements.

ENERGY SAVINGS

Question: Mr. Alvarez, it costs about $182 million each year for the Veterans Administration to heat and cool its buildings. Private contractors have indicated their interest in providing the same level of energy services for Federal Agencies at a cost savings of $40 million. In the Senate Report, this Committee directed the VA to undertake a Pilot Energy Services Project in 1987. What steps have you taken to begin these pilot projects?

Answer: A committee has been established with representatives of Engineering Service, Procurement Service, Fiscal Service and the General Counsel.

The selection process, for a typical hospital to conduct this pilot test project has been narrowed to four and should be completed within the next 30 to 60 days.

The necessary documents and procedures for implementing the test program are currently being researched and developed. This will allow us to expedite the accomplishment of the test project upon enactment of legislation to remove our major obstacle which is the current lack of authority for Federal agencies to enter into the multi-year contracts necessary for the outside investors to recover their costs. Section 4501 of the budget reconciliation legislation, currently before Congress, will effectively remove this obstacle if passed in its current form (as revised on December 16, 1985).

Barring unforeseen complications, our current data indicates that a contract for an energy services pilot test project could be accomplished within seven months after passage of the enabling legislation.

COMPUTER SECURITY

Question: In October of 1985, the General Accounting Office reported to Congress that there were security problems with certain key VA computer systems. (I will not mention the systems. I don't want to help those who might misuse them.) What steps has the VA taken to address these findings by the GAO?

Answer: The GAO report to Congress was a survey of the security status of 25 mission-critical automated information systems in various civilian agencies.

The VA system was one of five of the Federal systems surveyed which had all physical, technical, and administrative safeguards. GAO found that the VA had not executed all of its management responsibilities as required by OMB Circular A-71, Transmittal Memorandum No. 1. These responsibilities included the following: risk management, contingency plans, assigned responsibility, written procedures, personnel security, budgeting and accounting for security costs, training, and independent audit and evaluation.

GAO found that VA had performed a risk analysis of the system being studied, but had not developed risk management procedures for general use. ODM&T is researching various approaches to risk analysis in preparation for the development of a handbook. The handbook is scheduled for completion by the end of the last quarter of FY 1986.

GAO reported that a contingency plan existed, but it had not been tested. During the past six months, a contractor has been preparing a feasibility study of contingency planning for ODM&T. Based on the results of this study, which are now being reviewed, we hope to be able to develop plans which will be tested.

GAO found that VA had assigned information systems security officer responsibilities and that security officer positions descriptions did contain security responsibilities. However, not all ADP personnel position descriptions contained security responsibilities. An agency-wide security agreement circular is in draft. When implemented, it will require any employee who accesses a VA computer system to acknowledge his/her responsibilities for computer security.

GAO reported that facility operating procedures existed but that overall policies and procedures were not complete. The VA has had an agency policy concerning ADP security for almost two years. ODM&T is now completing a series of handbooks that will provide specific guidance on the various elements of ADP security. These handbooks are scheduled for completion by the end of the calendar year.

When GAO did its survey, it reported that VA had not implemented the new OPM regulations concerning personnel security. In April 1985, ODM&T issued circular 30-85-6 to comply with the new regulations within ODM&T. The publication "Computer Security: A Handbook for Managers and End Users" contains instructions on how to use the new OPM regulations. It is now being printed and should be distributed agency-wide in April 1986.

GAO found that VA was not separately budgeting and accounting for systems' security. Security proposals have been included in ODM&T's budget requests for the past two years. ODM&T has begun tracking expenditures for security awareness posters, physical security, and similar specific security expenditures. In addition, a draft VA circular "Implementation of VA ADP Security Policy" asks departments and staff offices to devise a method to track these expenditures.

GAO reported that policies and/or procedures existed for computer security education programs, but that formal programs had not been established. One end user computer security course has been pilot tested. Other courses, intended for different agency audiences, are scheduled for development over the next few months. ODM&T has purchased two security awareness video tapes this year to use with the training courses or as stand-alone presentations.

VA had met the requirements for an independent audit and evaluation.

Question: Please explain how the state-by-state expenditures in part 29 of the budget are computed.

Answer: A five year trend analysis was used to compute the estimates for FY 1986 and FY 1987 as reported in the state-by-state expenditures in part 29 of the budget. The proposed outlays for construction major and minor projects were integrated into the estimates for medical and construction programs to reflect project expenditures for both current and budget years.

Question: Does the estimate for Vermont include the $9.3 million requested for the White River Junction Research and Education Building? If so, why are the totals for 1986 and 1987 for Vermont about the same?

Answer: The estimate for Vermont does reflect expenditures for the Research and Education Building; however, the amount of expenditures for FY 1986 and FY 1987 attributable to this project is very small. Working drawings for this project will be accomplished through the design fund with an estimated award date of May 8, 1986. Expenditures from the design fund are not reflected until they become actual, so these would not be reflected in the totals you have. The estimated construction award is May 1, 1987. Historically, expenditures for construction do not occur until approximately three to four months after award. Therefore, expenditures reflected for construction in FY 1987 incorporate only the last two months of the fiscal year when they would be expected to result from a May 1987 award date. Estimates for FY 1988 and FY 1989 will reflect the larger amounts of expenditure for the Research and Education project. Project completion is currently esimated for April 1989.

QUESTIONS SUBMITTED BY SENATOR D'AMATO

Question: Will the sequestration drastically affect the VA?

Answer: The Gramm-Rudman-Hollings exercise resulted in a $234.1 million sequestration of budget authority and $196.5 million sequestration of outlays. The percentage reduction in VA budget authority was only about 9/10 of one percent. This is significantly lower than the 4.3 percent sequestration percentage reduction. This lower percentage is due to the fact that the majority of VA funding, nearly $23 billion, was either totally exempt or partially exempt. The Compensation and Pension programs were totally exempt and the Medical Care program was limited to a 1% reduction for direct medical care. However, adjustments will be made to General Operating Expenses. The VA will be able to operate without any major disruption under sequestration.

Question: Can you explain to me exactly where the VA will make its cuts as a result of the sequestration?

Answer: The following spreadsheet is being provided to show the effect of sequestration on VA budget authority and outlays.

LEGISLATIVE REFORM

Question: Please explain the two reforms that the VA is proposing for next year. Will these reforms reduce benefits for some veterans?

Answer: The means test proposed by the Agency would have set an income limit of $15,000. Nonservice-connected veterans whose incomes exceeded that level would have been ineligible for care.

The two major changes referred are now included in the recently enacted Consolidated Omnibus Budget Reconciliation Act of 1985 (P. L. 99-272). They would establish an income (means) test for most veterans seeking care for nonservice-connected disabilities, and create a third party reimbursement program.

To be eligible for nonservice-connected care under current law, most veterans must be unable to defray the costs of such care. A major exception allows veterans 65 years of age and older to receive cost-free nonservice-connected care regardless of the ability to pay. The new means test will only define precisely what "unable to defray the costs of care" means. However, veterans 65 years of age and older with income over the means test threshold will no longer be eligible for cost-free care. That impact is somewhat diminished by other provisions in the bill which would allow VA, for the first time, to provide VA care to such higher income veterans if they agree to pay a deductible or copayment.

Third party reimbursement will not reduce benefits to any veterans. A veteran's insurance coverage is not a factor in determining eligibility for care.

QUESTIONS SUBMITTED BY SENATOR BYRD

GRAFTON CEMETERY EXPANSION AT PRUNTYTOWN

Question: Mr. Alvarez, what is the latest status of the Grafton Cemetery expansion at Pruntytown, for which I secured an earmarking of $1.75 million in the reports accompanying the fiscal year 1984 and 1985 appropriation bills providing funding for the Veterans Administration? As you may recall, we were both present when the site of this new West Virginia National Cemetery at Pruntytown, West Virginia was consecrated on October 19, 1985. Since then, the VA has given the go-ahead to proceed with the $1.04 million in construction for phase one of the new cemetery.

What are the significant events leading to the completion of this project? I am advised that the first phase of construction, including four acres for burial sites, a road and a committal shelter could be ready by October 1986, with final completion around December 1987. The facility could be open for burials as early as October 1986. Please elaborate.

Answer: The following is the current timetable of events for completion of this project. Prerequisite milestones which included Project Scope, Concepts and Preliminaries for both buildings and site were completed during 1985.

	Site	Buildings
Complete Working Drawings	3/86	2/87
Construction Award	9/86	5/87
Open Road & Burial Area	5/87	
Complete Construction	9/87	4/88

As indicated in the above timetable, the working drawings for the site have been completed. The construction award is currently projected for September 1986. This schedule change reflects a projected slippage of two months due to an increase of $300,000 in project cost. This change in project cost will require the reanalysis and endorsement by all VA construction review officials before the construction contract can be awarded. This internal process adds two months to the previously projected date of July 1986. This delay will move actual construction into the fall and winter months with its unavoidable weather delays. Therefore, the open road and burial area completion date is now projected for May 1987 with site construction completed in September. The changes in the buildings construction schedule of four months result from the inclusion of the committal shelter into Phase II.

The Veterans Administration shares your interest in seeing this worthwhile project completed and thus be able to serve the West Virginia veteran population. Every effort is being made to complete all phases as expeditiously as possible.

CLARKSBURG VA MEDICAL CENTER CLINICAL ADDITION

Question: Mr. Alvarez, what is the latest status of the $21.4 million clinical addition for the Clarksburg VA Medical Center, for which appropriations were provided in fiscal year 1985? When do you expect a groundbreaking for this new facility?

Answer: The project, "Clinical Addition and Alternations" at VAMC Clarksburg, West Virginia, was funded in the FY 1985 appropriation at a cost of $21,400,000. Working drawings are currently underway and scheduled to be completed in June 1986. Design was delayed due to changes requested by the Medical Center and changes due to the preliminary design review. The construction award is currently scheduled for the end of September 1986.

BECKLEY VA MEDICAL CENTER CLINICAL ADDITION AND ALTERATION

Question: What is the status of the $15.5 million clinical addition and alteration project for the Beckley VA Medical Center? As you may recall, last year I wrote to the Administrator of Veterans Affairs, urging that this project be included in the fiscal year 1987 budget. Where does this project now stand and what are the significant milestone events leading to the completion of this project?

Answer: During the past several months, it has become apparent that VA construction resources will not grow in the manner which our previous planning had predicted. Thus, our plans now reflect the results of our analysis of all construction needs in the context of a more limited resource environment. The clinical addition project at VAMC Beckley, with all other planning proposals, were analyzed with respect to systemwide priorities and needs. Based on the analysis, this project was not included in the FY 1987 budget but will be considered in the earliest possible budget submission. When funding is requested in the future, the preliminary design efforts to date will be used to the extent possible for the development of working drawings for the clinical addition.

BECKLEY VA MEDICAL CENTER NURSING HOME CARE UNIT

Question: What is the status and probable timetable for the $7.1 million Nursing Home Care Unit for Beckley?

Answer: The 1987 budget restructures VA's nursing home care program by placing greater reliance on more cost effective state and community nursing home programs. Expansion of VA owned nursing home beds will be accomplished primarily through conversion of existing hospital beds to nursing home beds. In specific geographic areas where the restructured approach to providing long term care does not meet VA nursing home needs construction of a new VA nursing home will be considered. The need for nursing home care beds in Beckley will be evaluated within this context.

MARTINSBURG VA MEDICAL CENTER LAUNDRY REPLACEMENT

Question: As you may recall, last year I wrote to the Administrator of Veterans Affairs, urging that the proposed laundry replacement project be included in the fiscal year 1987 budget. Where does this project now stand and what is the probable timetable for this project:

Answer: An A-76 Study is currently being redone to assess the availability of private sector laundries to meet the requirements for laundry services at VAMC Martinsburg. If the results of this study demonstrate that VA laundry construction is more cost effective than contracting for these services, a project will be considered in a future budget consistent with systemwide priorities.

VAMC HUNTINGTON "CLINICAL IMPROVEMENT ADDITION"

Question: Last year I wrote to the Administrator of Veterans Affairs, urging that the $48 million clinical improvement addition for the Huntington VA Medical Center be included in the FY 1987 President's Budget. The project was included in the "FY 1986-1990 Five Year Medical Facility Construction Needs Assessment" published by the VA in December 1985, as a Fiscal Year 1987 project, but was not included in the FY 1987 President's Budget. How do you explain this? What is the probable timetable for this project?

Answer: During the past several months, it has become apparent that the VA construction resources will not grow in the manner which our previous planning had predicted. Thus, our plans now reflect the results of our analysis of all construction needs in the context of a more limited resource environment. The clinical addition project at VAMC Huntington and all other planning proposals were analyzed with respect to systemwide priorities and needs. This project was not included in the FY 1987 budget but will be considered in the earliest possible budget submission. When funding is requested in the future, the preliminary design efforts to date will be used to the extent possible for the development of working drawings for the clinical addition.

VAMC HUNTINGTON "120-BED NURSING HOME CARE UNIT AND RESEARCH ADDITION"

Question: What is the status of other VA construction projects contemplated for West Virginia, such as the Huntington "Research Addition and Nursing Home Care Unit" mentioned in last year's testimony?

Answer: During the past several months, it has become apparent that VA construction resources will not grow in the manner which our previous planning had predicted. Thus, our plans now reflect the results of our analysis of all construction needs in the context of a more limited resource environment. The research addition and nursing home care project at VAMC Huntington is one of the projects which will receive consideration in a future budget year consistent with systemwide priorities. We are evaluating ways to meet our nursing home goals through the conversion of unused hospital beds and greater use of community and state facilities where available. The need for nursing home care beds in Huntington will be evaluated with in this context.

STAFFING AT HUNTINGTON VA MEDICAL CENTER

Question: Please review for the record the language included at my request in the reports accompanying the FY 1985 and FY 1986 HUD Appropriation bills regarding the need for additional staffing at the Huntington VA Medical Center and VA's response to date, including the results of the site visit conducted at Huntington last summer by request. When can we expect to see significant relief for the Huntington VA Medical Center?

Answer: Under our productivity-based funding system for all Medical Centers, the Huntington VA Medical Center had a positive budget allocation for Fiscal Year 1986. Additionally, because a site visit team confirmed that there was some understaffing at Huntington, we added 20 FTEE and $856,860 to the Medical Center's budget in October 1985. This additional staffing has improved their situation; they will be considered for further adjustments in the future as resources become available.

GRAMM-RUDMAN LEGISLATION

Question: Please indicate the effects of the Gramm-Rudman-Hollings legislation on each of the VA Medical Centers in West Virginia, as well as the Regional Office in Huntington. Include in the response the Full Time Equivalent (FTE) staffing levels, the operational budgets, and any construction budgets for each of the VA Medical Centers in West Virginia for the fiscal years 1984, 1985, 1986 and 1987 estimated, along with an indication of the impact of the Gramm-Rudman legislation. Explain the effects of the safeguards included in the legislation designed to provide some measure of protection to the VA medical care budgets and how those safeguards have worked with regard to the VA Medical Centers in West Virginia.

Answer: Below are the Medical Care Appropriation funding levels and assigned FTEE for all West Virginia VA Medical Centers for fiscal years 1984-1986:

(dollars in thousands)

	FY 1984		FY 1985		FY 1986 AFTER GRAMM-RUDMAN	
VAMC	FUNDS	FTEE	FUNDS	FTEE	FUNDS	FTEE
Beckley	$15,027	370	$16,421	368	$15,334	372
Clarksburg	19,224	442	21,215	442	20,945	445
Huntington	24,701	491	25,565	491	27,911	504
Martinsburg	48,936	1,216	49,538	1,215	47,583	1,209

The above data reflect the following Gramm-Rudman reductions for FY 1986:

	GRAMM-RUDMAN	
VAMC	FUNDS	FTEE
Beckley	$ 94	0.7
Clarksburg	116	0.9
Huntington	148	1.0
Martinsburg	294	2.6

The FY 1987 proposed budgets for these facilities have not yet been developed.

Other reductions affected equipment and maintenance and repair funds not yet allocated to the facilities. Those reductions will impact the facilities since fewer dollars are available for future allocation.

The Gramm-Rudman legislation restricted the sequestration of direct medical care funds to 1%. This protected facilities direct care funds from 4.3% reductions applicable for certain administrative functions.

The 1986 original and revised distribution of staffing levels and total dollars for the regional office is as follows:

	1986 Estimate		
	Original	Revised	Difference
Staffing levels (FTE)	114.0	105.9	-8.1
Total Dollars	$3,641,454	$3,342,164	$-299,290

The 1986 difference reflects an appropriation cut as well as the effects of Gramm-Rudman-Hollings legislation. Every effort will be made to avoid any adverse impact on the delivery of services to veterans.

SUBCOMMITTEE RECESS

Senator GARN. The subcommittee will stand in recess until Tuesday, March 25, at 10 a.m., in room SD–192, and will hold a special hearing on NASA's overall space program accomplishments. The subcommittee is recessed.

[Whereupon, at 11:05 a.m. Wednesday, March 19, the subcommittee was recessed to reconvene at 10 a.m. Tuesday, March 25.]

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT-INDEPENDENT AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1987

WEDNESDAY, APRIL 9, 1986

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10 a.m. in room SD–124, Dirksen Senate Office Building, Hon. Jake Garn (chairman) presiding.

Present: Senators Garn, D'Amato, Leahy, and Lautenberg.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

STATEMENT OF HON. SAMUEL R. PIERCE, JR., SECRETARY, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

ACCOMPANIED BY:
- JOHN KNAPP, GENERAL COUNSEL
- JUNE KOCH, ASSISTANT SECRETARY FOR POLICY DEVELOPMENT AND RESEARCH
- ALFRED MORAN, ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT
- GLENN WILSON, PRESIDENT, GOVERNMENT NATIONAL MORTGAGE ASSOCIATION
- JAMES BAUGH, GENERAL DEPUTY ASSISTANT SECRETARY FOR PUBLIC AND INDIAN HOUSING
- STEPHEN MAY, ASSISTANT SECRETARY FOR LEGISLATION AND CONGRESSIONAL RELATIONS
- SILVIO DE BARTOLOMEIS, ACTING GENERAL DEPUTY ASSISTANT SECRETARY FOR HOUSING-FEDERAL HOUSING COMMISSIONER
- WILLIAM WYNN, ACTING GENERAL DEPUTY ASSISTANT SECRETARY FOR FAIR HOUSING AND EQUAL OPPORTUNITY
- PAUL ADAMS, INSPECTOR GENERAL
- JUDITH L. TARDY, ASSISTANT SECRETARY FOR ADMINISTRATION
- RICHARD FRANCIS, PRESIDENT-DESIGNATE, SOLAR ENERGY AND ENERGY CONSERVATION BANK
- DEBORAH G. DEAN, EXECUTIVE ASSISTANT TO THE SECRETARY
- JAYNE GALLAGHER, DIRECTOR, OFFICE OF THE ASSISTANT SECRETARY FOR PUBLIC AFFAIRS
- ALAN GREENWALD, DEPUTY UNDER SECRETARY FOR INTERGOVERNMENTAL RELATIONS

ACCOMPANIED BY—Continued

TIMOTHY COYLE, ACTING DEPUTY UNDER SECRETARY FOR FIELD COORDINATION

ALBERT J. KLIMAN, DEPARTMENTAL BUDGET OFFICER

OPENING REMARKS

Senator GARN. This morning we will hear from Secretary Pierce of the Department of Housing and Urban Development. Funding for HUD has been dramatically reduced from levels approved by Congress in previous years. New budget authority provided for fiscal year 1986 is a third of levels appropriated in fiscal year 1981. Furthermore, the Department is proposing a number of rescissions and deferrals for the balance of the current year and the administration's request for fiscal year 1987 total $5.5 billion, about half the level enacted by Congress last December.

Mr. Secretary, while your budget requests invariably stir up some controversy and protest on Capitol Hill, I think it fair to say that few other Departments of Government have sacrificed so much toward deficit reduction as yours.

I am happy to have you with us today and please proceed as you wish.

SECRETARY PIERCE'S STATEMENT

Secretary PIERCE. Thank you very much, Mr. Chairman and members of the committee. It is a pleasure to appear before you once again and to present HUD's fiscal year 1987 budget.

The budget we propose today reflects the present reality that the Federal deficit threatens healthy economic growth. We recognize the need many people have for housing assistance. We would like to be able to increase even further the level of assistance offered. Yet, we are constrained by the critical need to bring deficits under control.

I am proud that even while under such constraint, we have maintained and increased support to people who need housing assistance. Under my direction, our budget has been shrinking while we have been helping a million more needy families with housing. In 1981, 3.2 million families were supported by HUD's housing subsidies. We will help an unprecedented 4.2 million families by the end of 1987.

DEFICIT REDUCTIONS

Both the Congress, through passage of the Gramm-Rudman-Hollings Act, and the President, through his budget, have made a firm commitment to deficit reduction. The budget we propose reflects that commitment. It conforms to the decision made by the Congress to establish and meet legislatively mandated deficit reduction targets. I welcome this opportunity to present the way we would meet those targets, even as Congress is acting, or considering action, to meet them in its own fashion.

Mr. Chairman, our budget is the product of difficult choices, painfully hammered out to meet HUD's priorities within the framework of

Gramm-Rudman-Hollings. As you know, that law requires a zero deficit by 1991. Neither our ultimate goal, a zero deficit, nor the intervening yearly deficit reduction targets can be met on a 1-year-at-a-time basis.

Outlays for 1991 are not determined soley in 1991, or even in 1990; they are determined largely in 1986 and 1987. Nowhere is this truer than in HUD programs, most of which are based on one-time commitments to long-term expenditures.

For example, the 4.3-percent sequestrations mandated by Gramm-Rudman-Hollings for HUD programs in fiscal 1986 total $668 million in budget authority for the Department as a whole. The actual outlay savings in 1986 produced by that reduction is only $33 million. However, that same one-time reduction in budget authority will produce a $105 million outlay savings in 1987, and further savings of $231 million through 1991.

The fiscal 1987 budget, therefore, proposes to begin the process of achieving savings in out-year expenditures now—in 1986. To launch this process, our proposal would reduce budget authority to $5.5 billion in 1987 and would defer some funds appropriated in 1986 for use in 1987. The rescissions of 1986 budget authority we propose will bring total savings of $1.2 billion for the period from 1986 to 1991.

RESCISSIONS AND DEFERRALS

In the Assisted Housing Program, we propose a $2.3 billion deferral of funds from 1986 to 1987, and $4.4 billion in rescissions. These changes still allow increased support for the needy through our use of housing vouchers.

Another major proposal would defer $500 million in community development block grants to be used in fiscal year 1987 in lieu of 1986. This would result in a program level of $2.5 billion in 1986 and $2.6 billion in 1987. These levels will help meet critical community development needs at the same time they help us meet the deficit reduction objectives set by the Congress.

UDAG TERMINATION

We also propose a $206 million rescission of UDAG funding and a termination of the program. Although I have supported the program in prior years, our budget concerns require sacrifice in this area. Termination of UDAG is consistent with the administration's proposal to eliminate Federal financing and grant programs for local economic development, including the Appalachian Regional Commission, Economic Development Administration, and the Small Business Administration.

Other rescissions are proposed for the Rental Housing Development Grant Program, the Rental Rehabilitation Grant Program, and Housing Counseling Assistance. We believe these programs are of a lower priority and their termination support the deficit reduction goals of the Congress and the President.

OTHER REDUCTIONS

In addition to the rescissions of budget authority, we also propose reductions under several of the Department's loan programs. Vouchers are a better, cost-effective alternative to new construction. Consistent with this position, I am requesting that the loan limitation for the section 202 Housing for the Elderly and Handicapped Program be decreased by $549 million and that section 106 loans for nonprofit sponsors be reduced by $457,000 in 1986. Furthermore, I am asking that the limitations on the section 108 and section 312 programs be reduced by $163 million and $70 million, respectively. As with the other reductions requested by the Department for 1986, these measures are necessary to meet our objectives of lowering current and future deficits.

HOUSING VOUCHERS

To help shelter our most needy citizens, I propose vouchers for 50,000 additional families each year from 1986 to 1991. For the last several years, we have advocated vouchers as the basic form of housing assistance. Extensive research of the rental market and statistical measurements to today's housing situation support this approach. Substandard rental units are declining. Multifamily construction from 1983 through 1985 was at its highest level since 1973. The completion of unsubsidized apartments rose to 314,000 units in 1984, the highest level since 1974.

Our research indicates a very soft demand for newly constructed units. In 1984, the rate at which new apartments were absorbed by the market fell to the lowest level recorded since we began collecting such data in 1969. During 1984, only 67 percent of newly constructed apartments were rented within 3 months of completion.

The rental vacancy rate continued to increase, reaching 6.8 percent in the third quarter of 1985, the highest rate in 18 years. It is important to note that this vacancy rate was highest, not for luxury units, but for units renting at between $200 and $249 per month.

HOUSING'S DOMINANT PROBLEM

Affordability, not availability, remains the dominant housing problem for the poor. Vouchers are the most efficient and the most equitable means of addressing that need. They are more efficient because they provide many more families with housing, compared to newly constructed units subsidized for the poor. They are more equitable because they allow freedom of choice, do not isolate poor people from the rest of the community, and do not stigmatize families or neighborhoods. They also provide families with the flexibility of moving from one city to another without penalty. For these reasons, we are asking for 50,000 free-standing vouchers to help us meet the needs of poor families.

PUBLIC AND INDIAN HOUSING

Some of HUD's programs warrant continuation at generally the current level activity. For public and Indian housing, we are proposing virtual full funding for operating subsidies and utility costs. At the same time, we plan to ask PHA's to economize, along with the Federal Government, by holding their administrative costs at current levels.

For 1986 and 1987, only emergency repair funds are requested for public and Indian housing projects under the Comprehensive Improvement Assistance Program. Experience has shown that $225 million each year should be adequate to meet emergency needs. Moreover, it is important to note that, collectively, PHA's still have about $2.7 billion in unexpended Comprehensive Improvement Assistance Program funds which remain available to them for modernization. This unexpended funding should provide sufficient resources for modernization work to continue until traditional levels of funding are restored in 1988.

FEDERAL HOUSING ADMINISTRATION

Another major area I would like to discuss with you concerns the FHA program and our proposals for modifying it.

FHA was created to make mortgage money more accessible to the homebuying public. Today, much of the public is well-served by private mortgage insurers. The exceptions are those low and middle income families who still need our help. We want to target FHA to these families—especially the first-time homebuyers—not being served by the private market.

We have every indication that FHA is used by affluent families which, unlike those with lower incomes, do not have a special need for federally insured or guaranteed mortgages. With the national median income for all families at $26,433, we propose to target FHA to families with incomes of $40,000 or below. To ensure that we are serving the first-time homebuyer, and otherwise improving access to home ownership, we propose that FHA no longer insure loans for nonoccupant investors, nor for the purchase of second homes.

As this committee knows, we are committed to a study which will evaluate how FHA complements, or competes with, the private mortgage industry. Based upon this evaluation, and after broad consultation with affected parties, we expect to place our findings before the Congress in early 1987.

Our budget recognizes that, due to the economic recovery, there has been an increase in the resources available for community development at the local level.

COMMUNITY PLANNING AND DEVELOPMENT

It is essential that we direct scarce Federal resources to the most distressed communities, and we are working on a proposal to target a larger share of CDBG funds to them. Even with the proposed deferral of $500 million from 1986 block grant funds into 1987, a substantial amount—$2.5 billion—would be available in 1986, and $2.6 billion in 1987.

ENTERPRISE ZONES

We will continue to support enterprise zones, which stimulate economic activity. This is consistent with the administration's policy of offering incentives for businesses to flourish, rather than hand them direct subsidies. States and cities are demonstrating the highly positive impact enterprise zones have on depressed areas. This is but one example of the kind of public/private partnerships we must foster to address our urban and rural problems. HUD will remain at the forefront of this effort.

Experience has shown that public/private partnerships have a positive impact on our fair housing efforts, as well. Our Fair Housing Initiatives Program would foster and encourage such partnerships, and I am proposing it to the Congress again this year.

FAIR HOUSING AND EQUAL OPPORTUNITY

Fair housing is a critical issue, and I will not abandon my commitment to it. Because we believe the pursuit of budgetary discipline must not impede our fight against housing discrimination, we should increase the budget for fair housing and equal opportunity programs from $6.3 million in 1986 to $12 million in 1987. This support of public and private organizations is a small price to pay to alleviate hardships imposed on those being denied equal opportunities in choosing a place to live. Fair housing is a basic human right, and I ask this Congress to join me in demonstrating its commitment to this right by supporting the Fair Housing Initiatives Program.

We also will continue our efforts to strengthen enforcement of the Federal fair housing law by the enactment of suitable amendments to title VIII of the Civil Rights Act of 1968.

Finally, I am requesting $585 million for salaries and expenses, which will provide the staff and related items required for supporting the program levels proposed in our budget.

Now I will be happy to answer any questions the committee may have and provide you with further details concerning our fiscal 1987 budget proposals.

Senator GARN. Thank you, Mr. Secretary.

[The statement follows:]

STATEMENT OF SECRETARY SAMUEL R. PIERCE, JR.

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE, IT IS A PLEASURE TO APPEAR BEFORE YOU ONCE AGAIN AND TO PRESENT HUD'S FISCAL YEAR 1987 BUDGET.

THE BUDGET WE PROPOSE TODAY REFLECTS THE PRESENT REALITY THAT THE FEDERAL DEFICIT THREATENS HEALTHY ECONOMIC GROWTH. WE RECOGNIZE THE NEED MANY PEOPLE HAVE FOR HOUSING ASSISTANCE. WE WOULD LIKE TO BE ABLE TO INCREASE EVEN FURTHER THE LEVEL OF ASSISTANCE OFFERED. YET, WE ARE CONSTRAINED BY THE CRITICAL NEED TO BRING DEFICITS UNDER CONTROL.

I AM PROUD THAT EVEN WHILE UNDER SUCH CONSTRAINT, WE HAVE MAINTAINED AND INCREASED SUPPORT TO PEOPLE WHO NEED HOUSING ASSISTANCE. UNDER MY DIRECTION, OUR BUDGET HAS BEEN SHRINKING WHILE WE HAVE BEEN HELPING A MILLION MORE NEEDY FAMILIES WITH HOUSING. IN 1981, 3.2 MILLION FAMILIES WERE SUPPORTED BY HUD'S HOUSING SUBSIDIES. WE WILL HELP AN UNPRECEDENTED 4.2 MILLION FAMILIES BY THE END OF 1987.

BOTH THE CONGRESS, THROUGH PASSAGE OF THE GRAMM-RUDMAN-HOLLINGS ACT, AND THE PRESIDENT, THROUGH HIS BUDGET, HAVE MADE A FIRM COMMITMENT TO DEFICIT REDUCTION. THE BUDGET WE PROPOSE REFLECTS THAT COMMITMENT. IT CONFORMS TO THE DECISION MADE BY THE CONGRESS TO ESTABLISH AND MEET LEGISLATIVELY MANDATED DEFICIT REDUCTION TARGETS. I WELCOME THIS OPPORTUNITY TO PRESENT THE WAY WE WOULD MEET THOSE TARGETS, EVEN AS CONGRESS IS ACTING, OR CONSIDERING ACTION, TO MEET THEM IN ITS OWN FASHION.

MR. CHAIRMAN, OUR BUDGET IS THE PRODUCT OF DIFFICULT CHOICES, PAINFULLY HAMMERED OUT TO MEET HUD'S PRIORITIES WITHIN THE FRAMEWORK OF GRAMM-RUDMAN-HOLLINGS. AS YOU KNOW, THAT LAW REQUIRES A ZERO DEFICIT BY 1991. NEITHER OUR ULTIMATE GOAL, A ZERO DEFICIT, NOR THE INTERVENING YEARLY DEFICIT REDUCTION TARGETS CAN BE MET ON A ONE-YEAR-AT-A-TIME BASIS.

OUTLAYS FOR 1991 ARE NOT DETERMINED SOLELY IN 1991 OR EVEN IN 1990; THEY ARE DETERMINED LARGELY IN 1986 AND 1987. NOWHERE IS THIS TRUER THAN IN HUD PROGRAMS, MOST OF WHICH ARE BASED ON ONE-TIME COMMITMENTS TO LONG-TERM EXPENDITURES.

FOR EXAMPLE, THE 4.3 PERCENT SEQUESTRATIONS MANDATED BY GRAMM-RUDMAN-HOLLINGS FOR HUD PROGRAMS IN FISCAL 1986 TOTAL $668 MILLION IN BUDGET AUTHORITY FOR THE DEPARTMENT AS A WHOLE. THE ACTUAL OUTLAY SAVINGS IN 1986 PRODUCED BY THAT REDUCTION IS ONLY $33 MILLION. HOWEVER, THAT SAME ONE-TIME REDUCTION IN BUDGET AUTHORITY WILL PRODUCE A $105 MILLION OUTLAY SAVINGS IN 1987, AND FURTHER SAVINGS OF $231 MILLION THROUGH 1991.

THE FISCAL 1987 BUDGET, THEREFORE, PROPOSES TO BEGIN THE PROCESS OF ACHIEVING SAVINGS IN OUT-YEAR EXPEDITURES NOW -- IN 1986. TO LAUNCH THIS PROCESS, OUR PROPOSAL WOULD REDUCE BUDGET AUTHORITY TO $5.5 BILLION IN 1987 AND WOULD DEFER SOME FUNDS APPROPRIATED IN 1986 FOR USE IN 1987. THE RESCISSIONS OF 1986 BUDGET AUTHORITY WE PROPOSE WILL BRING TOTAL SAVINGS OF $1.2 BILLION FOR THE PERIOD FROM 1986 TO 1991.

IN THE ASSISTED HOUSING PROGRAM, WE PROPOSE A $2.3 BILLION DEFERRAL OF FUNDS FROM 1986 TO 1987, AND $4.4 BILLION IN RESCISSIONS. THESE CHANGES STILL ALLOW INCREASED SUPPORT FOR THE NEEDY THROUGH OUR USE OF HOUSING VOUCHERS.

ANOTHER MAJOR PROPOSAL WOULD DEFER $500 MILLION IN COMMUNITY DEVELOPMENT BLOCK GRANTS TO BE USED IN FISCAL YEAR 1987 IN LIEU OF 1986. THIS WOULD RESULT IN A PROGRAM LEVEL OF $2.5 BILLION IN 1986, AND $2.6 BILLION IN 1987. THESE LEVELS WILL HELP MEET CRITICAL COMMUNITY DEVELOPMENT NEEDS AT THE SAME TIME THEY HELP US MEET THE DEFICIT REDUCTION OBJECTIVES SET BY THE CONGRESS.

WE ALSO PROPOSE A $206 MILLION RESCISSION OF UDAG FUNDING AND A TERMINATION OF THE PROGRAM. ALTHOUGH I HAVE SUPPORTED THE PROGRAM IN PRIOR YEARS, OUR BUDGET CONCERNS REQUIRE SACRIFICE IN THIS AREA. TERMINATION OF UDAG IS CONSISTENT WITH THE ADMINISTRATION'S PROPOSAL TO ELIMINATE FEDERAL FINANCING AND GRANT PROGRAMS FOR LOCAL ECONOMIC DEVELOPMENT...INCLUDING THE APPALACHIAN REGIONAL COMMISSION, ECONOMIC DEVELOPMENT ADMINISTRATION AND THE SMALL BUSINESS ADMINISTRATION.

OTHER RESCISSIONS ARE PROPOSED FOR THE RENTAL HOUSING DEVELOPMENT GRANT PROGRAM, THE RENTAL REHABILITATION GRANT PROGRAM, AND HOUSING COUNSELING ASSISTANCE. WE BELIEVE THESE PROGRAMS ARE OF A LOWER PRIORITY AND SHOULD BE TERMINATED TO SUPPORT THE DEFICIT REDUCTION GOALS OF THE CONGRESS AND THE PRESIDENT.

IN ADDITION TO THE RESCISSIONS OF BUDGET AUTHORITY, WE ALSO PROPOSE REDUCTIONS UNDER SEVERAL OF THE DEPARTMENT'S LOAN PROGRAMS. VOUCHERS ARE A BETTER, COST-EFFECTIVE ALTERNATIVE TO NEW CONSTRUCTION. CONSISTENT WITH THIS POSITION, I AM REQUESTING THAT THE LOAN LIMITATION FOR THE SECTION 202 HOUSING FOR THE ELDERLY AND HANDICAPPED PROGRAM BE DECREASED BY $549 MILLION AND THAT SECTION 106 LOANS FOR NONPROFIT SPONSORS BE REDUCED BY $457 THOUSAND IN 1986. FURTHERMORE, I AM ASKING THAT THE LIMITATIONS ON THE SECTION 108 AND SECTION 312 PROGRAMS BE REDUCED BY $163 MILLION AND $70 MILLION, RESPECTIVELY. AS WITH THE OTHER REDUCTIONS REQUESTED BY THE DEPARTMENT FOR 1986, THESE MEASURES ARE NECESSARY TO MEET OUR OBJECTIVES OF LOWERING CURRENT AND FUTURE DEFICITS.

TO HELP SHELTER OUR MOST NEEDY CITIZENS, I PROPOSE VOUCHERS FOR 50,000 ADDITIONAL FAMILIES EACH YEAR FROM 1986 TO 1991. FOR THE LAST SEVERAL YEARS, WE HAVE ADVOCATED VOUCHERS AS THE BASIC FORM OF HOUSING ASSISTANCE. EXTENSIVE RESEARCH OF THE RENTAL MARKET AND STATISTICAL MEASUREMENTS OF TODAY'S HOUSING SITUATION SUPPORT THIS APPROACH. SUB-STANDARD RENTAL UNITS ARE DECLINING. MULTI-FAMILY CONSTRUCTION FROM 1983 THROUGH 1985 WAS AT ITS HIGHES LEVEL SINCE 1973. THE COMPLETION OF UNSUBSIDIZED APARTMENTS ROSE TO 314,000 UNITS IN 1984...THE HIGHEST LEVEL SINCE 1974.

OUR RESEARCH INDICATES A VERY SOFT DEMAND FOR NEWLY CONSTRUCTED UNITS. IN 1984, THE RATE AT WHICH NEW APARTMENTS WERE ABSORBED BY THE MARKET FELL TO THE LOWEST LEVEL RECORDED SINCE WE BEGAN COLLECTING SUCH DATA IN 1969. DURING 1984, ONLY 67 PERCENT OF

NEWLY-CONSTRUCTED APARTMENTS WERE RENTED WITHIN THREE MONTHS OF COMPLETION.

THE RENTAL VACANCY RATE CONTINUED TO INCREASE, REACHING 6.8 PERCENT IN THE THIRD QUARTER OF 1985, THE HIGHEST RATE IN EIGHTEEN YEARS. IT IS IMPORTANT TO NOTE THAT THIS VACANCY RATE WAS HIGHEST, NOT FOR LUXURY UNITS, BUT FOR UNITS RENTING AT BETWEEN $200 AND $249 PER MONTH.

AFFORDABILITY, NOT AVAILABILITY, REMAINS THE DOMINANT HOUSING PROBLEM FOR THE POOR. VOUCHERS ARE THE MOST EFFICIENT AND THE MOST EQUITABLE MEANS OF ADDRESSING THAT NEED. THEY ARE MORE EFFICIENT BECAUSE THEY PROVIDE MANY MORE FAMILIES WITH HOUSING, COMPARED TO NEWLY-CONSTRUCTED UNITS SUBSIDIZED FOR THE POOR. THEY ARE MORE EQUITABLE BECAUSE THEY ALLOW FREEDOM OF CHOICE, DO NOT ISOLATE POOR PEOPLE FROM THE REST OF THE COMMUNITY, AND DO NOT STIGMATIZE FAMILIES OR NEIGHBORHOODS. THEY ALSO PROVIDE FAMILIES WITH THE FLEXIBILITY OF MOVING FROM ONE CITY TO ANOTHER WITHOUT PENALTY. FOR THESE REASONS, WE ARE ASKING FOR 50,000 FREE-STANDING VOUCHERS TO HELP US MEET THE NEEDS OF POOR FAMILIES.

SOME OF HUD'S PROGRAMS WARRANT CONTINUATION AT GENERALLY THE CURRENT LEVEL OF ACTIVITY. FOR PUBLIC AND INDIAN HOUSING, WE'RE PROPOSING VIRTUAL FULL FUNDING FOR OPERATING SUBSIDIES AND UTILITY COSTS. AT THE SAME TIME, WE PLAN TO ASK PHAs TO ECONOMIZE ALONG WITH THE FEDERAL GOVERNMENT, BY HOLDING THEIR ADMINISTRATIVE COSTS AT CURRENT LEVELS.

FOR 1986 AND 1987, ONLY EMERGENCY REPAIR FUNDS ARE REQUESTED FOR PUBLIC AND INDIAN HOUSING PROJECTS UNDER THE COMPREHENSIVE IMPROVEMENT ASSISTANCE PROGRAM. EXPERIENCE HAS SHOWN THAT $225 MILLION EACH YEAR SHOULD BE ADEQUATE TO MEET EMERGENCY NEEDS. MOREOVER, IT IS IMPORTANT TO NOTE THAT, COLLECTIVELY, PHAs STILL HAVE ABOUT $2.7 BILLION IN UNEXPENDED COMPREHENSIVE IMPROVEMENT ASSISTANCE PROGRAM FUNDS WHICH REMAIN AVAILABLE TO THEM FOR MODERNIZATION. THIS UNEXPENDED FUNDING SHOULD PROVIDE SUFFICIENT RESOURCES FOR MODERNIZATION WORK TO CONTINUE UNTIL TRADITIONAL LEVELS OF FUNDING ARE RESTORED IN 1988.

ANOTHER MAJOR AREA I WOULD LIKE TO DISCUSS WITH YOU CONCERNS THE FHA PROGRAM AND OUR PROPOSALS FOR MODIFYING IT.

FHA WAS CREATED TO MAKE MORTGAGE MONEY MORE ACCESSIBLE TO THE HOME BUYING PUBLIC. TODAY, MUCH OF THAT PUBLIC IS WELL-SERVED BY PRIVATE MORTGAGE INSURERS. THE EXCEPTIONS ARE THOSE LOW AND MIDDLE INCOME FAMILIES WHO STILL NEED OUR HELP. WE WANT TO TARGET FHA TO THESE FAMILIES...ESPECIALLY THE FIRST-TIME HOME BUYERS...NOT BEING SERVED BY THE PRIVATE MARKET.

WE HAVE EVERY INDICATION THAT FHA IS USED BY AFFLUENT FAMILIES WHICH...UNLIKE THOSE WITH LOWER INCOMES...DO NOT HAVE A SPECIAL NEED FOR FEDERALLY-INSURED OR GUARANTEED MORTGAGES. WITH THE NATIONAL MEDIAN INCOME FOR ALL FAMILIES AT $26,433, WE PROPOSE TO TARGET FHA TO FAMILIES WITH INCOMES OF $40,000 OR BELOW. TO ENSURE THAT WE ARE SERVING THE FIRST-TIME HOMEBUYER, AND OTHERWISE IMPROVING ACCESS TO HOMEOWNERSHIP, WE PROPOSE THAT FHA NO LONGER INSURE LOANS FOR NON-OCCUPANT INVESTORS, NOR FOR THE PURCHASE OF SECOND HOMES.

AS THIS COMMITTEE KNOWS, WE ARE COMMITTED TO A STUDY WHICH WILL EVALUATE HOW FHA COMPLEMENTS, OR COMPETES WITH, THE PRIVATE MORTGAGE INDUSTRY. BASED UPON THIS EVALUATION, AND AFTER BROAD CONSULTATION WITH AFFECTED PARTIES, WE EXPECT TO PLACE OUR FINDINGS BEFORE THE CONGRESS EARLY IN 1987.

OUR BUDGET RECOGNIZES THAT, DUE TO THE ECONOMIC RECOVERY, THERE HAS BEEN AN INCREASE IN THE RESOURCES AVAILABLE FOR COMMUNITY DEVELOPMENT AT THE LOCAL LEVEL.

IT IS ESSENTIAL THAT WE DIRECT SCARCE FEDERAL RESOURCES TO THE MOST DISTRESSED COMMUNITIES, AND WE ARE WORKING ON A PROPOSAL TO TARGET A LARGER SHARE OF CDBG FUNDS TO THEM. EVEN WITH THE PROPOSED DEFERRAL OF $500 MILLION FROM 1986 BLOCK GRANT FUNDS INTO 1987, A SUBSTANTIAL AMOUNT -- $2.5 BILLION -- WOULD BE AVAILABLE IN 1986, AND $2.6 BILLION IN 1987.

WE WILL CONTINUE TO SUPPORT ENTERPRISE ZONES, WHICH STIMULATE ECONOMIC ACTIVITY. THIS IS CONSISTENT WITH THE ADMINISTRATION'S POLICY OF OFFERING INCENTIVES FOR BUSINESSES TO FLOURISH, RATHER THAN HAND THEM DIRECT SUBSIDIES. STATES AND CITIES ARE DEMONSTRATING THE HIGHLY POSITIVE IMPACT ENTERPRISE ZONES HAVE ON DEPRESSED AREAS. THIS IS BUT ONE EXAMPLE OF THE KIND OF PUBLIC/ PRIVATE PARTNERSHIPS WE MUST FOSTER TO ADDRESS OUR URBAN AND RURAL PROBLEMS. HUD WILL REMAIN AT THE FOREFRONT OF THIS EFFORT.

EXPERIENCE HAS SHOWN THAT PUBLIC/PRIVATE PARTNERSHIPS HAVE A POSITIVE IMPACT ON OUR FAIR HOUSING EFFORTS, AS WELL. OUR FAIR HOUSING INITIATIVES PROGRAM WOULD FOSTER AND ENCOURAGE SUCH PARTNERSHIPS, AND I AM PROPOSING IT TO THE CONGRESS AGAIN THIS YEAR.

FAIR HOUSING IS A CRITICAL ISSUE, AND I WILL NOT ABANDON MY COMMITMENT TO IT. BECAUSE WE BELIEVE THE PURSUIT OF BUDGETARY DISCIPLINE MUST NOT IMPEDE OUR FIGHT AGAINST HOUSING DISCRIMINATION, WE WOULD INCREASE THE BUDGET FOR FAIR HOUSING AND EQUAL OPPORTUNITY PROGRAMS FROM $6.3 MILLION IN 1986 TO $12 MILLION IN 1987. THIS SUPPORT OF PUBLIC AND PRIVATE ORGANIZATIONS IS A SMALL PRICE TO PAY TO ALLEVIATE HARDSHIPS IMPOSED ON THOSE BEING DENIED EQUAL OPPORTUNITIES IN CHOOSING A PLACE TO LIVE. FAIR HOUSING IS A BASIC HUMAN RIGHT, AND I ASK THIS CONGRESS TO JOIN ME IN DEMONSTRATING ITS COMMITMENT TO THIS RIGHT BY SUPPORTING THE FAIR HOUSING INITIATIVES PROGRAM.

WE ALSO WILL CONTINUE OUR EFFORTS TO STRENGTHEN ENFORCEMENT OF THE FEDERAL FAIR HOUSING LAW BY THE ENACTMENT OF SUITABLE AMENDMENTS TO TITLE VIII OF THE CIVIL RIGHTS ACT OF 1968.

FINALLY, I AM REQUESTING $585 MILLION FOR SALARIES AND EXPENSES, WHICH WILL PROVIDE THE STAFF AND RELATED ITEMS REQUIRED FOR SUPPORTING THE PROGRAM LEVELS PROPOSED IN OUR BUDGET.

NOW I WILL BE HAPPY TO ANSWER ANY QUESTIONS THE COMMITTEE MAY HAVE AND PROVIDE YOU WITH FURTHER DETAILS CONCERNING OUR FISCAL 1987 BUDGET PROPOSALS.

INCREASED DEMAND FOR FHA AND GNMA

Senator GARN. The Congress is often criticized for lacking foresight and yet they expected the loan guarantee demand on FHA and Ginnie Mae—they were certainly right in anticipating continued growth in mortgage activity. Last year we raised the FHA loan limitation by $9.1 billion and indicated our concern over the adequacy of these levels for both FHA and Ginnie Mae. They were wrong only in underestimating the full extent of the surge in mortgage credit demand. I understand Ginnie Mae has already exhausted the existing emergency ceiling and FHA is expected to do the same next month. What is the status of your supplemental request for additional loan guarantees.

STATUS OF SUPPLEMENTAL REQUEST

Secretary PIERCE. Well, we have already commenced our process of trying to get a new ceiling or a supplemental ceiling. We have been discussing the latter with OMB and we expect that the final request will be before the Congress in a matter of a few days.

Senator GARN. You originally estimated a cap of $95 billion for FHA and $100 billion for Ginnie Mae. Do you have any more current data indicating that these amounts may not be sufficient for fiscal year 1986?

Secretary PIERCE. No. As a matter of fact, the amounts that we will submit will be less than that, less than $100 billion, less than $95 billion. And we hope that—we believe, I should say, that the amounts that we will finally submit will be sufficient for this year. But I would like to say one thing with respect to the FHA. We think that there will be enough for this year if a $40,000 income cap is placed on the amount of income a family can earn in order to participate in FHA and if we eliminate single-family investor mortgages and mortgages on vacation homes. Those two factors will be necessary.

Senator GARN. Well, I agree. And I don't know what Congress' attitude would be on doing that, but I would expect that your limits of last year would be inadequate unless those constraints are enacted. I would expect you are going to run into difficulty with those requests. Because after all the years of housing difficulties, I think interest rates have now come down and activity is expanding dramatically out there. You are now going to receive a lot of favorable treatment. I recognize where it is coming from, primarily from OMB. These are loan guarantees and I recognize how they score them down there. They are contingent liabilities, they are certainly not outlays in the short run.

FHA GOALS

It seems rather strange to me, without commenting on the particular caps have gone that way, we have had difficulties in the home building industry the last few years. The unavailability of housing was due to the high interest rates. When you finally get a surge, then OMB wants to stifle it, which is what it really amounts to by not having adequate loan guarantees and trying to cut down eligibility. But as a general principle, Mr. Secretary, that doesn't make a great deal of sense to me. Particularly, when our goal was to put people into housing. We have heard the criticism of not enough new housing around the country in the last few years. Now, when it starts to boom, we are trying to stifle it. Tell me whether that is a HUD recommendation or an OMB recommendation?

Secretary PIERCE. Mr. Chairman, when we come to you it is as an administration recommendation. I am part of the administration——

Senator GARN. Well, I used to come back and testify before these committees as an officer of the National League of Cities. I came back representing the National League of Cities as I was always willing to present my position as mayor of Salt Lake City. So, you presented the administration's position. What is HUD's position?

Secretary PIERCE. Well, let me say this, Mr. Chairman. I do believe, in the past, too many affluent families have received FHA benefits. I think that should be cut. Now people may argue that the amount of $40,000 isn't right, or is right or, is too much or too little. However, I do think that the maximum income a family may earn to qualify for insurance should be reduced. I am dead against single-family investor mortgages. I don't think that businessmen should get the advantage of FHA through the so-called single-family investor mortgages. And I don't think mortages on vacation homes should be insured by FHA. Insurance on a family's primary residence is where it should end.

Senator GARN. Well, I think the administration was shortsighted in the viewpoint as far as second so-called vacation homes. We play that game in the tax bill as well. I know it sounds good to say, as an example, that if some rich Texan could afford a $0.5 million condo in Deer Valley, UT, that why in the world should he get by with——

Secretary PIERCE. He doesn't.

Senator GARN. You are probably right. [Laughter.]

HOUSING DEPRESSION OF 1982

But the point of it is, you look at the overall situation. Back in 1982 when the great housing depression was going on, about the only places they were building houses was in the resort areas of my State. The carpenters, plumbers, bricklayers, suppliers of lumber and raw materials—that go into that—sheet metal workers, roofers, and so on, didn't care who was buying or paying for those houses. They were working. And I think it is a shortsighted viewpoint when you only look at that popular thing and say, "$40,000 is a nice cutoff and people above that shouldn't be entitled to this." And then worry about the unemployment rate on the other side, and wonder why all those people are out of work. So there is a second component to this.

I wish this administration, particularly the gnomes of Treasury, would take a look at when they start attacking second homes. Because of the fact that all those trade people—they go to work and they pay taxes. They buy washing machines—when they make money—and automobiles and all sorts of things. Those dollars turn over many, many times. Once again, we are talking about loan guarantees; we are not talking about cash outlays. We are talking about contingent liability.

CHAIRMAN GARN'S SUPPORT

I have been one that supported cutbacks in HUD, at the levels I have talked about, trying to save money, but you also won't find a more ardent supporter of housing in this country. Particularly in trying to stimulate housing in the private sector so that more people have an opportunity to get into them. Then jobs that that produces are an additional benefit. Home building is a big industry in this country and you can save those carpenters and plumbers.

So I think we take the wrong tack at the very time when we are starting to get the housing market running again and expanding to get the level of new housing started—that we need in the private sector—we cut back in both areas. We cut back in the subsidized area.

I agree with your position, Mr. Secretary. I supported the request that this administration get out of the housing production area. But I don't think it makes a great deal of sense to stifle the private sector which I thought this administration wanted to build up. If we cut back in subsidized housing, and new construction—in all of these areas—and section VIII, to save the taxpayers' dollars—I thought the attitude was to stimulate more private-sector building. That is what FHA, Ginnie Mae, and some of us have tried very hard to do in expanding a secondary mortgage market. Mortgage, backed securities, and all of these is to provide housing in the private sector.

I am sorry, I have a hard time understanding some of these positions of the administration.

Secretary PIERCE. The feeling of the administration is that the private mortgage insurance companies can handle this situation, and FHA is not necessary to the extent it was in the past. That is the position.

RESCISSIONS AND DEFERRALS

Senator GARN. I understand the position, Mr. Secretary.

The administration proposed a rescission of $4.4 billion in the "Assistance housing" account for fiscal year 1986. In addition, $2.3 billion is also requested in the current year appropriation of nearly 70 percent of the account total. Questions have been raised with respect to how HUD plans to implement its fiscal year 1986 housing program, including the release of the third section 202 loan authority, if Congress fails to enact this rescission as well as overturn any deferrals. Especially, since the housing assistance funds have not been specifically classified as the rescission and deferrals. Would you explain how HUD intends to proceed should Congress take no action in regard to rescissions and deferrals?

Secretary PIERCE. I would expect to follow, at least on a proportional basis, the formula of spending that Congress had originally passed upon.

Senator GARN. It has been suggested by eliminating UDAG, cutting back on CDBG, as well as broadening its coverage in rural areas, terminating most of your housing programs and separate vouchers, which is income supplements—more an income supplement than a development housing program—there is little left in the Department in terms of housing and urban development programs. Aside from FHA, Ginnie Mae, as well as continued support from past housing commitments, you feel that that is just criticism by those who are making it?

NEED FOR HOUSING DEPARTMENT

Secretary PIERCE. No; I do not, Mr. Chairman. Because in addition to vouchers and CDBG, we do have a substantial amount of units in the pipelines in Public and Indian Housing, as well as in other areas. We sort of go year by year. The economics of the situation may change where we may have to shift back into more building such as rental rehab, or some other kind of building. Down the line, we may have to go into a small construction program. All these things will have to be reverted back into housing. Housing is a very major thing. It is one of the three basic needs in life.

I believe we must have an agency that will handle the needs of housing in this country. As I have always emphasized, our interest in housing is not just for the poor—although that is an important part of it—we are interested in housing across the board. I want to see the housing industry in this country a strong and viable one. I want the people in this Nation to be the best housed people in the world. I think that is the way we should look at housing; how this agency should look at it. And looking at it that way, we have a lot to do.

Senator GARN. Senator Lautenberg?

Senator LAUTENBERG. Thank you, Mr. Chairman.

Welcome, Mr. Secretary. I was paying close attention to your remarks, and I know how concerned you are about the budget, and doing your share of reducing the deficit, and you have done a pretty good job. We see a Department that in 1980 constituted 5.3 percent of the Federal budget. In 1986, it accounted for 1.4 percent of the Federal budget. The administration budget proposal this year, if it is approved, would get you down to 0.5 percent, one-half of 1 percent of the total Federal budget. In terms of supporting reduction budget deficit, certainly, I have to commend your Department for that.

ADEQUACY OF HOUSING VACANCIES

You and I have had this discussion before. I was pleased to hear your remark, just now, about safe, adequate, and good housing, and a thriving housing industry. Unfortunately, I have to challenge some of the comments you make about the adequacy of housing availability. You make the point about the number of vacancies that exist. I invite you, Mr. Secretary—I know you have been to my State—to join me in a trip through Newark, or Paterson, where I was born. And perhaps we can then be more specific about the adequacy of units for people who are seriously in distress and need help from our Government.

ENTERPRISE ZONES

You make reference to the enterprise zone, and you say you will continue to support that. Can you give my examples of successful enterprise zones projects?

Secretary PIERCE. There are about 26 of them in various States throughout the country, and they are all successful. We have been watching them and doing studies on them and they had——

Senator LAUTENBERG [continuing]. They lived up to their expectations in terms of numbers of communities that have been able to develop prospects for development?

Secretary PIERCE. Yes; the States have done very well. The thing that has made me very sad is that the Federal Government has not entered the enterprise zone areas.

Senator LAUTENBERG. It costs the Federal Government. As we encourage companies, we offer them an income tax reduction on their profits. It is not without cost.

Secretary PIERCE. But you will get it back. The areas that we would go into with Federal enterprise zones would be areas that are economically destitute anyway. Areas like the South Bronx in New York, where the local economy is extremely weak. Many of the people there are without jobs—the tax base there is a very poor one. Those are the areas we would be going into—we would not be just moving business from one prosperous locality to another. We would be going into depressed economic areas of the country.

URBAN DEVELOPMENT ACTION GRANT PROGRAM

Senator LAUTENBERG. UDAG had a record of incredible success in terms of payback to the Government as well. And we have seen numerous examples of the application of——

Secretary PIERCE. I don't think you ought to confuse it to the——

Senator LAUTENBERG. I am familiar with both. You know that I am interested in the UDAG Program. We had an opportunity to talk about that together.

What was your Department's program, Mr. Secretary, your pledge or request or OMB for UDAG?

Secretary PIERCE. $352 million.

Senator LAUTENBERG. That is the same amount suggested by the Senate last year. So, I guess when you request $350 million—it is not an insignificant sum, sir—are you saying the program has value?

Secretary PIERCE. I believe so, yes.

Senator LAUTENBERG. Mr. Secretary, your 1987 budget seeks to rescind to $220 million in UDAG funding. Your Department has informed local officials that you are not taking additional requests for funding. Should your rescission request not be approved by the Congress, are you prepared to restart this program and make the ground awards?

DEFICIT REDUCTION AND UDAG

Secretary PIERCE. We would restart the program if that is the case. But I would rather say this: we are getting rid of UDAG because of our deficit situation. The President—the administration has looked at a number of programs and feels that certain programs which give grants and benefits to local economies are no longer needed. We think that these programs can be done away with to help reduce the deficit.

Senator LAUTENBERG. I understand what the mission is. As I said earlier, Mr. Secretary, in terms of contributions to deficit reduction, I think your Department has done, perhaps, one of the more outstanding jobs.

I am concerned with the portfolio that you have on the things that I believe you would like to see accomplished; that is, to assist people. You described housing as one of the three principal requirements in our society. And that is the hallmark of a functioning democracy, and that is the opportunity to have a decent roof over their head. I prefer to look at this, not as an extension of OMB, but rather as a mission to get the housing market stimulated to provide the kind of environment that we can bring up families where there is ultimately a contribution to the society instead of deviance from standard, social behavior. We know housing has a large part to play here.

GAO REPORT ON HUD

Mr. Secretary, I want to discuss, with you, problems that I think we have in terms of supervision of the FHA Mortgage Insurance Program. You know I introduced a bill, along with Senator Proxmire and Senator Riegle, that requires the adoption of a GAO recommendation to strengthen internal HUD practices. I was pleased to see your announcement of April 3 confirming that this was a serious and not isolated program. The GAO report on single-family mortgage insurance noted the need for stronger internal controls in the FHA insurance process. In what ways do your recommendations of April 3 strengthen your internal procedures to prevent fraud?

Secretary PIERCE. Actually, we have a number of recommendations that we made. And if you want, I will just——

Senator LAUTENBERG. Just a couple of the highlights.

Secretary PIERCE. It won't take very long.

Senator LAUTENBERG. Unfortunately, we don't have much time. I will tell you what, can you pick out those couple that you think are the most important?

Secretary PIERCE. No.

Senator LAUTENBERG. They are all unimportant?

Secretary PIERCE. They are all important. If you want, you can have the whole report. We will attach it to the record or——

Senator LAUTENBERG. We will accept it—because of the constraints of time—in writing.

[The information follows:]

MEMORANDUM FROM JUDITH L. TARDY, ASSISTANT SECRETARY FOR ADMINISTRATION, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

March 28, 1986

MEMORANDUM FOR: Samuel R. Pierce, Jr., Secretary, S

FROM: Judith L. Tardy, Assistant Secretary for Administration, A

SUBJECT: Single Family Task Force

For the past several months, I have chaired the Task Force that you established to investigate problems of fraud and abuse in HUD's single family mortgage insurance programs. The Task Force has met on a number of occasions since June, both as a group and on three separate occasions with representatives of the Mortgage Bankers Association, the National Association of Realtors, and the National Association of Home Builders. Staff assigned to the Task Force, with the assistance of other HUD staff, have conducted extensive reviews and analyses of single family-related policy issues and data. Task Force staff have analyzed selected data associated with 1.7 million loans endorsed since 1980. To assist in focusing these analyses, numerous OIG and GAO reports issued since 1973 were reviewed to identify existing and potential fraud, as well as program and operational deficiencies in the single family insurance programs. Interviews were conducted with staff throughout Housing, Administration, Policy Development and Research, General Counsel and Inspector General Offices, as well as with HUD field staff, representatives from VA, FNMA, individual mortgagees and private mortgage insurers.

There are currently 4.4 million loans with an estimated asset value of $129 billion under the Mutual Mortgage Insurance Fund. Through media reports, OIG audits, GAO investigations and independent program analyses, it is apparent that some fraud and abuse is occurring in the single family mortgage insurance programs. While the extent of these activities cannot be quantified at this time, their occurrence compels us to take action to minimize losses to the insurance fund.

As a result of our data analyses, specific problems relative to investor-related activities were identified. For loans originated since 1980, the incidence of claims for investor-owned mortgages reflects a substantially higher risk of default than for other 203(b) level payment mortgages. Despite the higher equity requirements, data for loans originated since 1981 reveal an investor claim rate approximately twice that of the typical 203(b) loan. Recent data on 1985 originations reveal that while investors represented 12% of the business, they accounted for 30% of the defaults and claims.

An evaluation of the claims experience for each of the 81 field offices was undertaken. Data were compiled on endorsements and claims, by office and by year. The analysis demonstrated that the problems with investor mortgagors were not isolated nor is the magnitude diminishing. The study revealed that investor claim rates in 18 offices ranged from 15 percent to 30 percent. A special analysis was conducted on multiple loan investor activity (mortgagors with three or more loans) and "quick" assumptions (assumptions occurring within 24 months of endorsement). The data demonstrated investor-related problems in almost every office in 6 of the 10 Regions. Although the type of abuses vary by office, the most typical problems involve: investors who refinanced their properties, took out cash, and subsequently defaulted on their new mortgages; investors who refinanced and sold their properties, allowing their loans to be assumed by unqualified buyers; builders who misused certain programs designed to assist them during difficult economic times. Unable to move their housing inventory, some builders purchased their own properties as investors. Failing to subsequently sell or rent the properties, they simply defaulted leaving HUD to incur significant losses. Incidents of "equity skimming" were also identified. In these cases, investors continued to collect rents without making mortgage payments until the loans were foreclosed. There are currently 44 separate investigations underway in 30 localities across the country involving more than 500 loans. The Inspector General is also auditing and investigating other investor-related irregularities such as the use of strawbuyers, investor misrepresentation and "quick" assumptions.

Our analysis of investor-related problems also revealed that there is no systematic process for identifying and prohibiting investors with a history of defaults from participating in HUD programs. Although credit reports are requested on all cases, they do not always reveal prior mortgage defaults. The Department therefore relies on voluntary disclosure. Further, in examining actual cases, the Task Force concluded that in many instances investors had the financial capacity to meet their mortgage obligations but simply refused to do so. A case was discussed in which the Department paid a claim during 1983 for an investor with a reported net worth of approximately $3 million. Since that time the investor has obtained 15 new insured mortgages against which three additional claims have been paid, and four loans are currently delinquent. Neither the credit report nor the new application disclosed the prior defaults. No effort has yet been made to recover the debt.

As illustrated by the above example, these investor abuses are further exacerbated by HUD's failure to pursue deficiency judgments. In not one case reviewed by the staff did HUD seek to recover its losses. Without remedial action or some form of deterrence, and the publicizing of these actions through trade journals and other media, there is little incentive for investor mortgagors to meet their obligations.

While the Task Force is cognizant of the proposed FY 1987 budget which includes a legislative proposal to prohibit investor participation in the single family insurance programs, intermediate steps to curtail the abuses and to reduce our losses are being recommended by the Task Force in the interim.

Special attention was also focused on loan cases where defaults occurred within the first four months of the mortgage. Over 250 case binders were examined and more than 100 servicing mortgagees were contacted in an effort to ascertain the circumstances and reasons for "early" defaults. Approximately 10% of HUD claims occur with fewer than four payments having been made; 4.5% with no payments at all. Results from the study were inconclusive because in over 40% of the cases, servicing mortgagees were unable to determine the cause of default.

It should be noted that corrective actions to many of the problems found before and during the course of our Task Force review have already been initiated where such action could be taken without higher level approval. Thus, a number of important steps have been taken by Housing, OIG and the Office of Finance and Accounting to strengthen the single family programs and to prevent fraud and abuse. These actions are identified and briefly described in Attachment A to this memorandum.

In the process of identifying fraud and irregularities in the FHA programs, we have also uncovered a number of programmatic issues. The Task Force believes that, although important, they are primarily management and procedural problems internal to the programs and, thus, do not warrant elevation to your level for action.

We request Housing to respond within 90 days from the date of this memorandum directly to you regarding their plans for addressing these matters.

The Task Force has identified several important policy issues that need your personal attention. Although the options for addressing these issues focus on the single family program as a whole, our intention is to target specific abuses within the FHA programs. The Task Force is especially concerned with investor participation in the single family programs, and a number of recommendations are proposed which address specific investor problems. In addition to these changes, the Department must continue to monitor investor activity, especially where individual investors hold a substantial number of loans in the same and neighboring geographical areas, to determine whether stronger actions are necessary to eliminate abuses.

The policy issues and recommendations below include information regarding the various positions taken by the industry and Task Force members, including, where appropriate, minority views. Space for you to indicate your decisions on these eight issues is provided.

(1) New FHA-insured loans should be denied to any mortgagor for whom a claim has been paid within the last three years.

All new applications should be matched against all claims paid during the previous three years and loans currently in default to identify and deny new loans to those mortgagors for whom a claim has been paid, or who hold a mortgage in default. The local HUD office may make an exception for owner occupants in extenuating circumstances. Representatives from the industry groups generally supported this recommendation.

As noted, our analysis has revealed the existence of numerous individuals with multiple loans, including loans in default and loans on which claims have been paid, who are continuing to obtain FHA-insured loans on additional properties. In many instances, these individuals have sufficient assets to qualify for new loans, but fail to report previous defaults, and consequently receive good credit ratings because previous defaults have not been reported to credit bureaus by either HUD or mortgagees.

__________ Agree __________ Disagree __________ Other

(2) All mortgagors who default on FHA-insured loans should be reported to credit bureaus.

It appears unreasonable for HUD to require the collection of information from credit bureaus in order to make creditworthiness determinations, but at the same time fail to ensure that this information includes previous defaults on FHA-insured mortgages. Reporting of this information to credit bureaus will complement the action recommended above regarding the screening of mortgagors with a history of defaults and will further strengthen the underwriting process. This recommendation is supported by the representatives from industry with whom we met, and is consistent with the requirements of both the Debt Collection Act of 1982 and OMB Circular A-129.

____________ Agree ____________ Disagree ____________ Other

(3) Creditworthiness reviews should be required of all those seeking to assume an FHA-insured mortgage within 24 months of endorsement, or of a previous assumption.

Our analysis reveals that the assumption feature of FHA loans is frequently used by investors to sell FHA-insured properties to non-creditworthy individuals, particularly in soft markets, who subsequently default. While we strongly support the position that FHA-insured loans should remain assumable, we believe that they should only be assumable by those who meet FHA mortgage credit requirements. Our data suggest that most abuse occurs within 24 months of assumption. We are, therefore, recommending that all assumptions taking place within 24 months of endorsement, or of a previous assumption, incorporate a creditworthiness review for the new mortgagor.

This recommendation represents a compromise suggested by representatives from the NAR and the MBA, who proposed that FHA target its remedial actions on those assumptions with the highest potential for problems rather than requiring a credit review for all assumptions.

While the NAHB is pleased that the Department has narrowed its credit review of assumptions to the first two years of a loan or prior assumption, they may still be concerned and oppose any full credit review process that would add costs to the homebuyer and time to the current assumption process. Depending on the extent of credit review, the cost to the new mortgagor may be as much as one point. However, a less comprehensive check which excludes a review of the prospective mortgagor's asset and liability position and primarily consists of a simple credit report would be less expensive. The Task Force has considered the merits of this alternative but recommends the more comprehensive review to ensure maximum protection for the Government.

____________ Agree ____________ Disagree ____________ Other

Note: In order to effectively implement the three above recommendations, it is important that the Department be granted the legislative authority to require prospective mortgagors to furnish their social security numbers and to use that information for purposes as outlined in the recommendations. It is therefore imperative that the Department continue to aggressively pursue the enactment of legislation through the general bill proposed by the Administration or through specific legislation applicable to HUD.

(4) The one-year conditional commitment on new construction should be reduced to nine months.

Our study of this issue has convinced us that given the dramatic reduction in inflation, slower property value appreciation, and the rapid development of regional soft markets, the one-year conditional commitment constitutes an unreasonable risk for the FHA insurance fund. Under the current conditional commitment for proposed construction, the Department commits to insure a mortgage amount for 12 months despite any reduction in home prices occurring in the market place. Although the NAHB expressed some concern about this recommended change in policy, the MBA and other industry representatives as a whole felt that nine months was a reasonable time frame for a conditional commitment.

__________ Agree __________ Disagree __________ Other

(5) The Department should aggressively pursue sanctions against those who abuse the FHA program, including deficiency judgments against defaulting mortgagors.

In the course of our study, we have seen evidence that significant numbers of defaulting mortgagors - particularly investors - have considerable assets available to cover deficiencies remaining after foreclosure and disposition of the properties. Although State laws relating to deficiency judgments against single family mortgagors vary, aggressive pursuit of such judgments in carefully selected cases would have a beneficial deterrent effect. Regulations are currently pending with the Office of General Counsel that permit the payment of a claim without conveyance of title. Prompt action on these proposed regulations is necessary to facilitate the deficiency judgment process.

__________ Agree __________ Disagree __________ Other

(6) The Department should publicize actions taken on deficiency judgments against mortgagors and release information on the remedial actions taken against mortgagees and others who have abused HUD programs.

Wide publicity of deficiency judgments against mortgagors and of actions against mortgagees and others who have abused HUD programs, such as those involved in Mortgagee Review Board (MRB) decisions, debarments, and suspensions will have a deterrent effect. We believe that we must demonstrate to the public that the Department will not tolerate misuse of government programs and will prosecute violators to the fullest extent of the law.

__________ Agree __________ Disagree __________ Other

(7) The Mortgage Review Board should be strengthened.

Because sanctioning mortgagees is reserved solely to the MRB, its role in the conduct of the FHA programs is critical. Although only 28 cases came before the Board from 1981 through 1985, the numbers of IG audits in process and of cases pending before the Board are growing, and that trend is expected to continue. In the past, cases have taken an average of eight months preparation before coming to the Board. However, new procedures to expedite mortgagee audits have recently been adopted by the OIG. Moreover, Housing staff have developed procedures to improve the targeting of their reviews and to increase the number of servicing mortgagees that are reviewed.

We recommend further that the importance of this review function be enhanced by requiring that only principal staff sit on the Board, and that this responsibility only be delegated to the Deputy Assistant Secretary level in unusual circumstances. The MRB meets quarterly for approximately an hour. The FHA Commissioner serves as Chairman. The Assistant Secretary for Administration, the General Counsel, and the President of GNMA are the other members of the MRB. The new Board should be instructed by you to meet and to discuss the purpose and procedures to be followed in future meetings and should also be instructed to take a firm stand against mortgagees who violate the policies and procedures of the FHA program or who put the FHA fund in jeopardy.

____________ Agree ____________ Disagree ____________ Other

(8) The Department should adopt a policy of cash equivalency appraisals and more restrictive underwriting practices for builder buydowns.

The topic of "cash equivalency" has recently received industry-wide attention as part of a growing concern over the accuracy of current appraisal techniques. Briefly, an appraisal is intended to be an estimate of the market value of a property, and this estimate serves as the basis for determining the maximum loan amount, as well as for assuring the security of the loan. In recent times, volatile interest rates and increased use of so-called "creative" financing have made it considerably harder for appraisers to determine the true market price of a home.

For single family homes, the principal method of estimating value is by comparing the prices of similar homes recently sold in the same general neighborhood. If these comparable sales reflect the value of favorable financing (e.g., seller financing at below market interest rates, assumptions of low interest rate mortgages or interest rate buydowns), the resulting estimate of value will be overstated in comparison to the true market value of the property being appraised. Using comparables that are overstated can lead to estimating an appraised value that is too high — and thus allowing a mortgage that exceeds the correct market value of the home. Obviously, the Department is vulnerable to insurance claims whenever the borrower's mortgage debt exceeds the resale value of his property.

Financing concessions can also directly affect the home being appraised. FHA downpayment requirements are based on the lesser of appraised value or total acquisition cost. In cases where builder buydowns or other financing concessions are provided, the contract sales price implicitly includes the value of any financing assistance -- and thus overstates the true market value of the home. Indeed, these concessions are generally used most frequently to avoid the need for builders to reduce contract sale prices in the face of higher interest rates or softening demand. As in the case of inflated comparables, a contract sales price that overstates the cash resale value of the property can lead to artificially high mortgage amounts and potentially a greater number of insurance claims.

The concept of "cash equivalency" appraisals is an attempt to deal with these problems by emphasizing the need to eliminate the impact of financing of sales concessions from the estimate of value. Ideally, this would require the appraiser to eliminate the impact of these concessions from both comparable sales used to estimate the value of a home being appraised and would also require similar adjustments in the home's sales price for underwriting purposes as well.

Unfortunately, there are a number of technical and methodological problems with a full implementation of cash equivalency appraisals in the strictest sense. For example, the value of financing concessions varies with interest rates, the buyer's tax bracket and the expected timing of resale. In addition, data are not presently available in all cases to permit full implementation of cash equivalency -- especially in the case of existing home sales.

FNMA and FHLMC have adopted a modified version of cash equivalency appraisals which stresses that the appraiser must adjust comparables to reflect the impact of financing or sales concession — but also stresses the need to avoid a mechanical approach and recognizes that these adjustments can only be made where the information is reasonably available. In effect, the modified version places much greater reliance on the appraiser's judgment and experience and much less emphasis on theoretical application.

Single Family is proposing to take a similarly pragmatic approach to the problem. Specifically, appraisers will now be asked to adjust comparables by excluding the value of seller paid financing or other incentives which exceed an established norm. Nationally, the "traditional" threshold for financing costs absorbed by the seller would be 5 points. Adjustments would only be required for concessions which exceed the local threshold.

The same thresholds would also be established for adjusting sales prices. As in the case of comparables, field offices will have some flexibility in establishing a threshold, and seller concessions within the established maximum will be allowed without penalty. But underwriters will be required to reduce the sales price and maximum mortgage amount when financing concessions exceed the predetermined threshold. Under this proposal, excessive financing concessions will be avoided.

Finally, the practice of qualifying buyers at the initial buydown rate presumes growth in buyer income sufficient to match the scheduled graduation in mortgage payments as the buydown is phased out. Reliance on this assumption is risky in today's non-inflationary economy. The experience of another FHA program which combines low down payment with graduating payments (Section 245 (b)) indicates substantially higher default rates. To the extent that the Department wants to encourage homeownership by allowing for income growth, the Section 245 (a) and (b) programs provide adequate vehicles where the risks are clearly understood. Therefore, under our proposal, whenever a temporary buydown is in evidence, buyers will be qualified at the mortgage rate rather than the initial buydown rate.

__________ Agree __________ Disagree __________ Other

Should you have any questions concerning any of the issues raised in this memorandum or in its attachment , the Task Force would be happy to meet with you, at your convenience, to discuss them.

Attachment

Recent Departmental Initiatives
Relating to the Single Family Program

Investor Related Actions

Since May 1985 a series of mortgagee letters have been issued addressing serious abuses which have occurred with investor mortgagors. A study of recent claims revealed that investors are refinancing properties and walking away from their mortgage obligations. A policy has been issued precluding investors from taking cash out of refinancing transactions. In an effort to circumvent this policy, investors have executed sales among friends and relatives. A new directive has been issued instructing mortgagees to lower the loan-to-value ratio for investor loans from 85 to 75 percent where an identity of interest exists between the buyer and the seller.

Additionally, ongoing default analysis indicates that problems have occurred when investor mortgagors sell their properties shortly after endorsement to a third party through the simple assumption process. These individuals are speculating in the trading of properties without regard to rental use. To ensure that investors intend to hold properties for rental purposes, a one-year lease is now required for all applications involving investor purchases.

Special Review of Properties Formerly Owned by HUD

An enhancement was made to the automated system (CHUMS), in response to the Camden problem where speculators bought HUD properties and shortly thereafter sold them to unqualified buyers at much higher values. All property addresses on new applications are now compared to a file comprising HUD-owned properties and previously rejected properties. If a match occurs with respect to the HUD-owned property, the appraiser is alerted. If the new value exceeds the HUD sales price by more than 10 percent, a field review is then required before a commitment can be issued.

Revisions to the Shared Equity Program

In response to an IG investigation in Las Vegas, improvements were made to the shared equity program. They included requiring the investor to make at least a 20 percent share of the monthly payment and requiring an analysis of the creditworthiness of each borrower for their percentage of the monthly payment. Previously, the incomes were combined and reviewed together. Under the new process, purchasers of properties using shared equity arrangements now must have an adequate income to cover their portion of the payment and fair market rent for the investors' part.

Improved Management of Fee Panels

Field offices have complained that it was almost impossible to remove unsatisfactory fee panel members. In August 1984 new criteria were established which greatly facilitated the removal of poorly performing fee personnel. Among the changes made was the institution of an annual recertification process. Unsatisfactory fee panel members are not being recertified. In FY 1985, approximately 400 appraisers were removed from fee panels.

Automated Field Review Data Collection System

On 10 percent of appraisals completed, FHA staff or other fee personnel conduct a field review of the appraiser's work. The appraisals are rated good, fair or poor. With this enhancement to CHUMS, ratings are recorded and data are stored for each appraiser. Thus, field office managers can closely track appraiser performance and take remedial action as is necessary.

Second Homes Purchases - Higher Downpayment

Mortgagors are now required to make at least a 15 percent downpayment when purchasing second homes (same as investors). Previously, these borrowers were allowed to obtain high ratio loans (97% of the first 25,000, 95% of the amount over that).

Field Office Review of Early Defaults

As soon as field office management staff become aware of a mortgage default shortly after endorsement (within 12 months), they are to refer these cases to mortgage credit staff who will attempt to ascertain the cause of the default. Through this process, problems of fraud or abuse can be detected and analyzed quickly so that appropriate corrective action can be taken.

Headquarters Technical Review of Recently Endorsed Cases

Based on statistical analyses, one field office is selected each month for technical review by Headquarters. The designated office submits recently endorsed cases. These cases are reviewed for compliance with our outstanding instructions regarding program and underwriting procedures. Comments are returned to the field office and corrective actions are monitored.

Case Processing Improvements

o Residual Income

Instead of permitting adequate residual income (income remaining after all debts are paid) to be the sole basis for borrower approval, new instructions were issued to limit the importance of residual income. It is now only one of the factors to be considered in the underwriting analysis.

o Pictures of Comparable Properties

Field reviews indicated that comparable properties used in estimating property values were often poorly chosen and sometimes did not even exist. In an effort to improve appraisal quality, FHA now requires the appraiser to provide pictures of the comparables. We understand that others in the industry have now adopted this requirement.

Quality Control Measures

FHA has taken a variety of measures to improve its quality control system. These actions are exemplified by the addition of a new management goal on quality processing. The new goal will compare the percentage of FY 1985 originations which go into default during FY 1986 for each field office with the national average. The key actions to improve quality control are:

- Data Analysis

  - Default Monitoring System: On a monthly basis, default information is analyzed to identify mortgagors with multiple loans in default and originating mortgagees with high default rates. Consistent with the management plan goal, particular attention is paid to early defaults.

  - OFA Claims System: OFA has recently implemented a new claims system. Special reports have been designed to monitor "early defaults" by office, by mortgagee, by mortgagor. This information enables Housing to quickly identify trends and patterns of fraud and abuse.

- Application of Data

  Once data are assimilated, reports are disseminated to field offices on problem mortgagees and mortgagors. The Headquarters Mortgagee Monitoring Division uses these data to select mortgagees for reviews. Field offices take these data into account in evaluating the creditworthiness of borrowers for new mortgages. They also use the mortgagee data in evaluating the Direct Endorsement performance of lenders.

  Other uses are planned with regard to the servicing of defaulted loans. We expect changes in this area to be implemented in the next several months.

Mortgagee Monitoring

The Office of Mortgagee Monitoring has improved the targeting of reviews of mortgagee origination practices. Resources are now focused on lenders with: high claim/default rates; high incidence of "early defaults"; high volume of business; complaints, etc. During on-site reviews more emphasis is being placed on programmatic problems, early defaults, investor issues, and processing deficiencies. Independent reverification of Verification of Employment and Verification of Deposit data is now focused on high Loan-to-Value loans in general, and those with low mortgage amounts, in particular. Other types of cases selected include investor loans and "quick assumptions".

Field Office Training

In February 1984, we conducted a training course for Field Office Managers (Housing Development Division Directors) on their single family program responsibilities. We have recently completed training for all Chiefs of Valuation and Mortgage Credit Branches. The primary goals of this course were to improve processing quality and management of single family programs so as to ensure maximum staff efficiency.

Completion of Audits

The OIG has acted to reduce the time it takes to complete an MRB audit. For example, the Regional Inspectors General for Investigations and Audit are now working together to avoid delaying an audit's completion while a criminal investigation is pending; Regional and Headquarters OIGs are consulting earlier on key audits; auditor training has been improved; and the mortgagee audit guide has been revised.

Sharing Data

The OIG has developed reports which enable Housing to closely monitor multiple loan investor activity and "quick" assumptions. Separate reports have been prepared for each office and distributed to Housing staff in the field.

Management Plan Goal

An FY 86 Regional Management Plan goal has been established on field reviews of mortgagee servicing activities.

GAO RECOMMENDATIONS

Senator LAUTENBERG. One of the GAO recommendations, which you didn't adopt, was the greater, independent verification of the ability to make payment on mortgages.

Secretary PIERCE. No.

Senator LAUTENBERG. Let me go through my comments, and you can challenge me if you see we are off target here.

The GAO recommended that HUD, for example, check, if only by telephone, the ability to pay 20 percent of those seeking mortgages in areas with high default rates as high as 120 percent of the national average. Apparently, you thought this was not necessary. I would like your comments as to——

Secretary PIERCE. Actually, we think that there should be a creditworthiness review for all those seeking to assume an FHA-insured mortgage within 24 months of endorsement, or of a previous assumption indicating——

Senator LAUTENBERG. Well——

Secretary PIERCE [continuing]. It depends on how you look at it. In addition, there is further work being done as proposed by the task force study. Pursuant to that study, the Office of Housing at HUD will work on and recommend to me, within 90 days from the date of the report, certain programmatic changes in FHA.

Senator LAUTENBERG. We are talking about independent verification. Will you be looking to verify these in other ways than the staff review so that we can—so far the experience on default is not great. And we would like to—and I am sure you share the view on that—reduce that as much as possible.

Secretary PIERCE. I believe that if the recommendations of the task force are adopted, and if the additional recommendations of the Office of Housing are sound, we will go a long way in resolving the default problem.

LACK OF DEFAULT RATE IMPROVEMENT

Senator LAUTENBERG. About the progress over the last couple of years, have we improved on the default rate?

Secretary PIERCE. No; it has been worse. That is what brought all of this on. And to be perfectly frank, we have had the same kind of rules in effect for many, many years. The default rate was noticeably greater in the last few years. That is why we made the change. Single-family investors are really giving us the works. That is why I should like to get rid of them. We would do much better if we did that.

Senator LAUTENBERG. Right now it is part of the structure, part of the program. As long as it is there, I guess we have to make it work as well as we can.

Secretary PIERCE. We will do the best we can.

LACK OF VA APPRAISERS' ACCOUNTABILITY

Senator LAUTENBERG. Mr. Secretary, one of the issues in the mortgage insurance area—the lack of accountability of VA appraisers are accountable only to themselves which strikes me as an open invitation to fraud. GAO recommended that appraisals be done by HUD or VA personnel, or by contract, if you certified that is a cheaper, more efficient way to do it. To what extent is this accountability of appraisers an issue in this program?

Secretary PIERCE. We really didn't get into the appraisers in great detail. Let me ask the person who is in charge of the task force, Mrs. Judy Tardy. She can tell you the extent to which they had a problem.

PROBLEMS OF HIRING APPRAISERS

Ms. TARDY. Senator Lautenberg, we looked into the appraisal problem tremendously, and we were very much aware that this was an issue that you have a tremendous interest in, and made a determination at this point. The business is up so much, we are having a hard time hiring appraisers, right now. With your particular bill to mandate that appraisers have to be HUD employees with appraisers getting $275 in the private market, that for HUD to be able to hire them as grade 9 and grade 11, we are tremendously concerned. I am the Assistant Secretary for the administration, and I would have to be hiring personnel. We could not hire 5,000 to 7,000 appraisers at this rate.

We have had problems with appraisers, I think everyone can see that. We don't have evidence that the vast majority of appraisers are taking advantage of us. We have initiated a number of practices in the Department that we think will help improve our internal controls over appraisers.

Housing recertifies appraisers annually now, and has a lot of criteria in that. Several hundred did not get recertified last year. In addition to not being recertified, there are a number of other actions housing can take; to spend an appraiser for a certain amount of time requires them to take additional training.

HUD AND VA APPRAISERS

We have had some problems with appraisals we accept from VA. We are requiring that the Veterans Administration give us the names of the appraiser when they get the appraisal so that we can track to see if there are any particular patterns of practices by the VA appraisers so that we can take some actions with the VA on the praticular VA appraisers. We feel we are doing a number of things that will help get at eliminating poor appraisers. We have a system—an automated system that we never had. And each appraiser is reviewed and he is rated poor, average, good and that information is keyed into an automated system and is retained to help us review our appraisers——

Senator LAUTENBERG. My time is up. If I could just have a minute more, Mr. Chairman.

What do you do with those who fall into the poor category? Are they eliminated from any use or any work with the Department?

Ms. TARDY. That is part of this information, sir, that is used in terms of the recertification on what additional training. What is the cause of this, and that is one of the criteria that is used in determining whether we keep an appraiser on to be eligible to do additional FHA work.

BIGGER JOB AHEAD FOR HUD

Senator LAUTENBERG. I have asked GAO to examine the April 3 action to see how you have addressed our concern and the Congress' concern for improved internal procedures. I want to be of help; I want to help you solve the problem. You know we have had enormous difficulty in some of our communities—the Government has been taken in many ways.

What I hear in the message, Mr. Secretary, is that there is more resource needed at times when these programs—when I opened my remarks I commended you for your contribution to the budget deficit. I think we have a bigger job to do, in all due respect, in terms of providing housing, supervising the mortgage loans that we make, and making certain as much as possible, we prevent fraud and theft from occurring. It is a big job, it is an enormous responsibility in our country. And I would rather see us discussing how we can make these programs work instead of rescissions, deferrals, obstruction, and we will continue to press on.

Thank you very much.

LEVEL OF HOUSING ACTIVITY

Senator GARN. Mr. Secretary, it was the case last year when the administration requested no new incremental money for housing units. The same situation, I think, will exist here in Congress that we will demand some funding for additional housing assistance activity. I told the administration that; I told the OMB that, and my comments—they may desire that, and we have to be able to counsel in this body and in the House. I would expect some funds, some level of activity will be put back in. I would expect to, at least, maintain 100,000 incremental units as before. Let's assume that does take place. And I say it as probably likely at some level. What are our priorities or your relative support of such programs if Congress does that again?

NEED FOR LOCALIZED HOUSING RESERVE

Secretary PIERCE. I would like to increase the amount of vouchers that we asked for and secure the Rental Rehab Program—that is the way I see that.

In addition, there is a dream that I have had for a long time—maybe people in Congress don't like it, maybe people in my own Department do not appreciate it. But I think we should have some kind of a building reserve. It can't be a free-spending king of thing—it should be some kind of a building reserve that could be used in certain localities which absolutely need new buildings. It would be spot building—building done in small amounts, and only in those localities where it was absolutely necessary. The mere fact that the program was allocated money would not mean that the money would have to be spent. I don't know how to get a program like that, but that is what I would like to see accomplished. When we get building programs, too often they become too big, too massive, too expensive, and too untargeted, and that is not what we want. When you take the United States as a whole, there are still places where there is great need for the small, highly targeted building program I described. However, it could only be used in localities with the severest of housing shortages. It would not be a broadly used program.

Senator GARN. Isn't that what—at least in some areas, Mr. Secretary—the discretionary fund is intended to do that?

Secretary PIERCE. That can't do it either, unless you designate it for that purpose. Then it could be. Right now, the strings on the discretionary funds would make that very difficult.

Senator GARN. I understand about strings. Years ago, I got so upset with HUD's inability to produce housing, after a couple of years I said, "Well, I will forget about it and go to the State legislature and get $0.5 million." You appropriate $0.5 million and I will appropriate $0.5 million. In 2 months we had people in low-income housing in 2 to 3 months. I understand the concept you are talking about. I don't know how to implement it either.

SIGNS OF HOUSING IMPROVEMENT

Secretary PIERCE. It is just impossible at this time. It would be very difficult, I think, to justify it at this time unless it is done with a very tight hand. Things are getting much better. We are getting much more housing built, much more low-income-type housing built. There are more vacancy rates than we have had for many years. There is a lot of housing, much more than we have had before, but we are talking nationwide. I want to get down to an individual place. It is a matter of saying, I am trying to help the whole United States and be able to help a particular place here and there. Yet, I know it is difficult because I don't want a thing like the HODAG Program, something that automatically goes out on a loose formula and goes to many cities. It should be something absolutely necessary because I still do not generally believe in building programs. Right now, that position is well taken because the private sector is building well and we are getting the kind of space that we need. It is a matter of housing affordability, not housing availability. We are getting plenty of availability. It is a matter of getting people to be able to take care of themselves so they can afford the housing—but the housing is here.

Once in a while, a community may have an exceptionally tough housing situation, one that may only be resolved with the type of housing program I have been discussing. I would like to have such a program available. To me, that would complete the picture. I want to make it plain that I do not believe in a general building program. I am glad we got away from section 8 new construction. I don't want to bring back anything like a general building program. I don't think we need it at all.

EMERGENCY FOOD AND SHELTER PROGRAM

Senator GARN. As you know, we have been funding an Emergency Food and Shelter Program in FEMA since 1982. I was very much a part of that debate; that was the middle of the recession. I don't have any doubt the need was there. It was interesting how it started. We incorporated $50 million in the Senate and $50 million in the House. The disagreement was on how it should be distributed, whether through private agencies or through FEMA. Interestingly enough, we went into conference and compromised at $1 million. We took both amounts and added them together, House and Senate. Some had suggested now that after 4 years, of what was supposed to be a one-shot deal, is hardly an emergency any more. That is the major point I want to talk about. The point I objected to, at that time, was setting it up in FEMA. FEMA's major responsibility was natural disasters, hurricanes, floods, all of that sort of thing. It was hardly geared up to be an emergency housing shelter or food business. I still feel that way. We are talking emergency-type activity that ought to be run by people with experience in housing. I still believe HUD is in a better position than FEMA to carry out that effort. What is your opinion?

Secretary PIERCE. I like FEMA, and I like the gentleman in charge—we have had lunch together—and he is a nice guy. [Laughter.]

HUD AND THE EMERGENCY SHELTER PROGRAM

I think if you talk to FEMA, they probably wouldn't want the job anyway.

Senator GARN. I guarantee you they don't want the job.

Secretary PIERCE. If they really don't want the job, I think we would go ahead and take it. Somebody has to do it, and I think we would do a good job on it.

Senator GARN. FEMA does not want it. I thought it was a poor idea to put it up under FEMA. FEMA didn't have the personnel, the background, or the experience to get involved in it. If it is going to continue, which it probably will, then it ought to be in HUD, and possibly you should discuss it with HHS and FEMA in the appropriate administrative framework for that responsibility. If you do, I will try to make another attempt to transfer that. I think that HUD is in a better position to handle it than FEMA.

TECHNICAL ASSISTANCE PROJECT

I would certainly like to congratulate you on your district-heating-cooling initiative funded through the "Technical assistance" account which comes under CDBG. Programs identified a number of very efficient energy conservation projects and communities across the Nation. One example has been in my own State in Provo, UT, a project in which other cities in my State expressed interest in. I had a letter last December from mayors of the three largest cities—Salt Lake, Provo, and Ogden. What are your plans for continuing this?

Secretary PIERCE. I have my Assistant Secretary here. He says he wants to talk about this.

Mr. MORAN. For the record, my name is Alfred C. Moran, Assistant Secretary for Community Planning and Development. We intend to continue this particular initiative in fiscal year 1986. We have obligated approximately $300,000 to the district heating project. These particular projects were awarded to seven cities. The purpose of it was to conduct an assessment of the feasibility of connecting district heating systems into situations involving public housing projects; using housing projects as the anchor user of the energy. We intend to complete this particular assessment by the end of fiscal year 1987 to see how it is working out. We are committed to this particular mission.

Senator GARN. Senator D'Amato?

Senator D'AMATO. Thank you, Mr. Chairman.

It is good to see Secretary Pierce here. He has been doing an outstanding job with difficult situations and I don't intend to add to his difficulty by asking too many questions.

Senator GARN. I wish you would treat me the same say. [Laughter.]

Senator D'AMATO. Are you a constituent from New York, Mr. Chairman?

Senator GARN. I may not be a constituent from New York, but I am chairman of a committee that doles out a lot of benefits. [Laughter.]

Senator D'AMATO. Mr. Chairman, that is why we are going to listen and appease you, and be supportive of the chairman. And for the record, we will say to his constituents back home, "It is very tight to put in a dollar when it comes to New York." [Laughter.]

But that is only for the record.

SECRETARY'S DISCRETIONARY FUND REPROGRAMMING REQUESTS

Mr. Secretary, the Congress has been expecting HUD to reprogram funding to certain programs under its jurisdiction. This includes some projects, I assume, for New York. When should we expect HUD reprogramming requests, Mr. Secretary?

Secretary PIERCE. You are talking about the discretionary funding?

Senator D'AMATO. I am not too particular. Next I will be talking about the projects. [Laughter.]

Secretary PIERCE. I thought we already sent that up.

Senator D'AMATO. No; it hasn't been.

Mr. KNAPP. We have been responding to questions from the Hill.

Secretary PIERCE. I thought I sent it up.

Senator D'AMATO. We sent up a program request without identifying the program; it is just not going to pass. It is not going to pass in the House and it is not going to pass in the Senate, and we are not going to get the project. I have some people out in Suffolk County waiting for some money for a drinking water project and we put money in there. When are you going to sent it up in a form that it would be accepted by the Congress?

Secretary PIERCE. Let me say this. I understand Congress wants to know in advance all of the programs that we will give money to. They want them at this point in time. That would require some—I don't think we can do it. There are several programs, a couple of which we know are yours——

Senator D'AMATO. And it has been held up for a while.

Secretary PIERCE [continuing]. That can be done. What I would rather do with those is, I would rather send them up when I can go through the regular process of reprogramming them.

Senator D'AMATO. In other words, you want to send them up, individually, as you have them.

Secretary PIERCE. Yes.

Senator D'AMATO. Great.

Secretary PIERCE. I think that is a better way of doing it. I can't sit down and work out——

Senator D'AMATO. Will that happen?

Secretary PIERCE. I will send them up individually. I can't sit down and work out a list and maybe even tie my own hands by finding out later on that I left out a program that should have been included, and for which there is no money.

Senator D'AMATO. We have worked some out and agreed, and I think everyone has signed off as being good and beneficial. We are caught in a larger problem that you have indicated, and I recognize your position.

Secretary PIERCE. Let me send up those programs individually.

SECTION 236 AND STATE AGENCIES

Senator D'AMATO. Mr. Secretary, HUD made a commitment to fully fund section 236, and States have been waiting for this assistance for some time. When could we anticipate the binding contracts for the States?

Secretary PIERCE. Here is the Deputy Assistant Secretary for Housing. He has been doing research on it and can answer that for you.

Mr. DE BARTOLOMEIS. Basically, what we have been trying to do under this administration is to work with the State agencies in order to provide them access to those funds to use in any way they see fit. We are working in tandem with the State agencies trying to research some of the issues involving use of those funds. One of the biggest concerns we have is that we would like to see that De Wilde pools are used to permanently finance existing construction and not to bring new units under the agreements. We want to use the De Wilde pools to make those existing projects more fiscally sound and physically safe. It seems to be used for mortgage increases or for providing more assistance in specific projects already. We are trying to hammer out an agreement that both the State agencies and HUD can live with. A former Assistant Secretary of Housing came forth with a proposal that gave HUD's position. Inasmuch as the De Wilde agreements were hammered out between the State agencies and HUD, we are trying to clarify the extent of the Federal obligation. I think you will find that the State agencies will be pleased at what we are proposing.

Senator D'AMATO. You have been dealing with New York——

Mr. DE BARTOLOMEIS. We are dealing with New York as well as other agencies. I know that you have legislation pending and we are taking that under consideration. We are hopeful that we can work out the solution so legislation will not be required.

Senator D'AMATO. OK. Because this has been taking place over a period of time, and I think we want to try to resolve it as quickly as possible. It is languishing now. Are you sure that you are going to continue to persist on resolving this? If so, I would be deeply appreciative. I know the chairman would be, and then I would stop asking these questions.

Mr. DE BARTOLOMEIS. Senator D'Amato, I would like to add, we will address that and you can be assured that New York will have a fair shake. The person that recently filled my old job as Deputy Assistant Secretary for Multi-Family Housing is a New Yorker also.

Senator D'AMATO. Who is that?

Mr. DE BARTOLOMEIS. Hunter Cushing. He is now Acting Deputy Assistant Secretary for the multifamily housing programs.

Senator D'AMATO. Can we get a little beef injection to really get him primed up here? [Laughter.]

Thank you very much, Mr. De Bartolomeis.

Thank you, Mr. Secretary, it is always good to see you.

Thank you, Mr. Chairman.

Senator GARN. I would say you never have to worry about New York getting their fair shake so long as Senator D'Amato is around—having spoken on this and Housing Banking, and Housing and Urban Affairs Committee—he looks after New York extremely well. As a matter of fact, since he has been there, I suggest they have had more than their fair share. [Laughter.]

The letter of Senator Lautenberg to the Comptroller General dated April 9, 1986, will be inserted in the record at this point.

[The letter follows:]

LETTER FROM SENATOR LAUTENBERG

APRIL 9, 1986.

Hon. CHARLES A. BOWSHER,
Comptroller General,
General Accounting Office,
Washington, DC.

DEAR MR. BOWSHER: On May 13, 1985, the General Accounting Office issued a report (GAO/RCED-85-4) entitled, "Stronger Internal Controls Over HUD Single-Family Mortgage Insurance Programs Would Discourage Fraud." This report was issued in response to a request by myself and Senators Riegle, Bradley, and Baucus.

On April 3, 1986, the Department of Housing and Urban Development announced that nine specific recommendations of a task force on the Single-Family FHA Mortgage Insurance Program had been favorably acted upon by Secretary Pierce. These recommendations, outlined in the attached memo from Assistant Secretary for Administration, Judith Tardy, to Secretary Pierce, tighten the procedures under which individuals may receive FHA insurance.

While I appreciate the Department's efforts to address the external environment in which fraud occurs and the extraordinary default rate among investors, I remain concerned that the actions taken by the Department are almost exclusively external. Your May 13, 1985, report called for tightening internal procedures to strengthen HUD's ability to detect fraud and control its recurrence. I question whether HUD's April 3 actions satisfy GAO's recommendations for internal management improvements.

Therefore, I would very much appreciate it if the GAO would examine the actions announced by HUD on April 3, 1986, in light of your May 13, 1985, recommendations. I have introduced legislation requiring the adoption of the GAO recommendations. An early analysis of HUD's action will inform me as to how to proceed with that legislation.

I remain concerned that for lack of adequate internal management, an important Federal housing program has fallen victim to unscrupulous speculators. HUD's finding that fraud and abuse in this program has been widespread underscores the threat to the program's credibility.

I appreciate your attention to this matter and look forward to your prompt response.

Sincerely,

FRANK R. LAUTENBERG.

[CLERK'S NOTE: The memorandum referred to in Senator Lautenberg's letter maybe found on p. 419.]

SUBMITTED QUESTIONS

Senator GARN. Mr. Secretary, I have a number of additional questions I will submit to you. In fact, several pages for your response.

[The following questions were not asked at the hearing but were submitted for response for the record:]

QUESTIONS SUBMITTED BY SENATOR GARN

SINGLE FAMILY TASK FORCE STUDY

Question: Last week, HUD released its Single Family Task Force report on fraud and abuse in the FHA single family mortgage insurance program. While a large number of specific recommendations were made by that study, only three appear to need, in part, additional statutory authority to implement. Specifically, aggressive Departmental action to pursue existing legal remedies, deficiency judgements and prosecution of fraud, would seem well warranted and necessary.

What actions has HUD taken to implement these recommendations?

Answer: The Task Force recommendations to which you refer have resulted in the Department taking the following aggressive efforts to deter and reduce fraud and abuse:

- giving priority to high-risk mortgagees in our monitoring procedures;
- developing new procedures to expedite HUD Office of Inspector General audits of mortgagees;
- cooperating with the FBI and the U.S. Attorney's Office in comprehensive investigations of possible fraud;
- continuing efforts to educate juries and judges on the seriousness of fraud and abuse in FHA programs, and to obtain more severe sentences;
- publicizing widely the extent of this fraud and abuse and the vigorous sanctions we have taken against violators of our program requirements, in an effort to deter others from undertaking illegal activities;
- submitting legislation requiring that prospective mortgagors furnish their social security numbers as part of the process of determining their eligibility for FHA insurance, which will enable us both to better check mortgagor credit ratings and to report to credit bureaus mortgagors who default on FHA loans; and
- identifying and disapproving applicants for FHA insurance who have defaulted on an FHA-insured loan in the previous 3 years, except in certain extenuating circumstances.

The Task Force proposes expanding these already-initiated fraud reduction efforts to include the pursuit of deficiency judgements. To this end, the Department is preparing regulations authorizing FHA to require insured mortgagees in its single family programs to seek deficiency judgements when this is advantageous to the FHA Fund. At present, we are clearing these regulations within HUD in the form of a proposed rule.

Question: Would such legal action require additional appropriations or are such activities direct expenses of the FHA Fund?

Answer: The activities described above do not require additional appropriations at this time.

Question: Please provide for the record, a listing on past HUD actions taken with respect to deficiency judgements and fraud prosecutions.

Answer: Our past and present regulations do not authorize the Department to require lenders to pursue deficiency judgements.

However, in fiscal years 1982 through 1985, HUD's fraud prosecution efforts produced indictments of 1,475 persons/firms and 26 HUD employees, and convictions of 1,173 persons/firms and 15 HUD employees.

It should be noted that during and prior to the Task Force effort, the Department was actively pursuing a variety of program quality enhancements. On an interim basis, the Department initiated special, recurring statistical reviews of program activities, such as early defaults, claim analysis, recently endorsed cases and applications for insurance involving properties formerly owned by HUD. The Department also has focused on long term plans using automation as the cornerstone of management controls. Some of the components of this plan are the Direct Endorsement Tracking System and the Computerized Homes Underwriting Management System.

STUDY OF COMPLETION WITH PRIVATE INSURANCE

Question: Your statement notes the ongoing HUD study evaluating how FHA mortgage insurance relates to the private insurance industry. This study should be completed next year.

Do you feel it premature, then, to enact significant alterations in FHA insurance availability pending the completion of your study?

Answer: The proposals included in our 1987 Budget are not premature. If approved, they will avoid the most obvious overlaps which presently exist between markets served by FHA and private mortgage insurers, and at the same time reduce the high risk of foreclosure now being experienced by limiting the maximum allowable FHA loans to the true loan-to-value ratios that Congress has provided.

The ongoing study is broader. Its purpose is to determine whether there are different means, other than the direct provision of primary mortgage insurance, through which the Federal Government can perform its necessary rolé in supporting the availability of mortgage credit without competing directly with private sources.

PRIVATE MORTGAGE INSURANCE

Question: Mr. Secretary, you stated that for both primary loan guarantees (through FHA) and for secondary loan guarantees (through GNMA) the Administration is actively encouraging private mortgage programs as an alternative to your Federally backed programs. Recently, however, in the savings and loan industry we have seen a dramatic reversal of this thrust to the point where the Federally sponsored insurance programs are being requested to take over failed private programs. Do you see any parallels between private savings and loan depository insurance and mortgage insurance?

Answer: No, I don't see real parallels. I do not have full familiarity with the troubles that overwhelmed the private deposit insurance systems. My impression, though, is that the private mortgage insurance companies are a good deal more mature and prudent in the way they run their businesses than were the privately insured thrifts, even taking the EPIC experience into account. That is even more clearly true, I think, at the secondary market level, where there has been such enormous growth in both volume and sophistication in the private sector in the last few years. I certainly don't see a real potential for a need to expand the Federal insurance or credit programs in the housing area. As you indicate, the evidence of growth and increasing sophistication and capacity in the private sector makes us look more for potential transition in the opposite direction in the housing credit field.

INDIAN HOUSING

Question: For several years, the Congress has provided for the recapture and rescission of housing budget authority not utilized on a timely basis. Last year, the Department requested but failed to obtain OMB support of a provision to exempt funds for Indian Housing development from rescission -- but would rather reallocate such recaptured funds to other Indian Housing Authorities. What were the Department's reasons for requesting this authority and would you support such legislation this year?

Answer: This proposal was seen as a complement to efforts to recapture funding from dormant Indian Housing Authority (IHA) projects. It also would have maximized the number of new units built with funding appropriated for that purpose. However, the Administration does not support legislation at this time to reuse Indian Housing funding due to substantial improvements which have been made in the awarding process and increased technical assistance to IHA's. These actions will make recapture much less of a problem in coming years. The Department will, of course, continue to focus on expediting the movement of Indian Housing units through the pipeline to completion.

Question: The Committee was informed recently that HUD was preparing to recapture and rescind up to 600 Indian Housing unit reservations. What is the status of this move?

Answer: On March 18, 1985, a memorandum was sent to the Field Offices reiterating a recapture policy originally framed in the Indian Housing Regulations (24 CFR 905.206(b)(4)). It required that, 1 year subsequent to the date of the memorandum, Indian Housing Authorities have an approved development program in place within 1 year of fund reservation and that construction begins 1 year thereafter.

There are 1,928 units in 74 projects that are affected. IHA's with 600 of these units already have failed to meet a deadline and those units may be subject to immediate recapture. IHA's with the remaining 1,328 units have a deadline they must meet this fiscal year. Those IHA's are working to achieve the stated thresholds so that recapture may not be necessary. The Office of Indian Housing is giving personal attention to projects eligible for recapture where Field Office personnel think there may be a chance to complete at least some units.

LEAD-BASED PAINT

Question: During consideration of the FY 86 Appropriations Bill, we were requested to specifically earmark modernization funds for lead-based paint removal in Public Housing. While such an earmark was not included in the Bill, we did direct the Department to study the issue and to report back to us. I also understand that recently a court order was rendered requiring issuance of regulations on this issue. Please describe the status of this issue? Can you estimate, in general terms, its potential cost?

Answer: The proposed lead-based paint regulations were published on February 14, 1986 (51FR5666). HUD is required by court order to publish a final regulation by August 1, 1986. On April 22, 1986, the Secretary reported to the Appropriations Committees on the resources for removing lead-based paint in Public Housing projects and the level of funds that have been allocated to address the lead-based paint problem at the local level. Preliminary data from the modernization study prepared for the Department, but not yet completed, estimate that the per unit lead-based paint abatement cost at the 0.7 mg/cm^2 level is $1,100. The per unit abatement cost is affected by the degree of treatment, method of abatement, and whether exterior surfaces and common areas are prorated into the cost. However, this does not include testing and administration. The Department's experience with the lead-based paint set-aside in 1984 indicates that unit costs could go as high as $2,500, including testing and administration. The Department currently estimates that the costs to abate lead-based paint hazards in Public Housing projects are at least $591 million, including non-dwelling facilities but excluding testing costs. This estimate is very tentative and is subject to change based on the final regulations.

Question: What will be the impact of your proposed reductions in CIAP funding on this activity?

Answer: Our proposed level of Comprehensive Improvement Assistance Program (CIAP) funding will provide for the correction of emergency conditions that pose an immediate threat to tenant health or safety. This includes dwelling units occupied by children who have been identified as having elevated blood lead levels.

Question: Concerns have been expressed also with respect to potential asbestos exposure in Public Housing -- an issue that is receiving growing attention as a human health hazard. To what extent has the Department initiated efforts to assess this concern, especially relative to the hazard posed by lead-based paint?

Answer: The Department has not studied the extent of the presence of asbestos in Public Housing, nor the incidence of health problems resulting from such possible hazards. Therefore, the risks from asbestos compared with those from lead-based paint is not known. However, Public Housing Agencies are responsible for compliance with local, State and Federal environmental protection laws and must take appropriate steps to address environmental hazards, including asbestos.

ANALYSIS OF HOUSING CONTRACT RENEWALS

Question: I would like to thank your Department for including an analysis of the substantial outyear impact of current housing program contract renewal in your FY 87 budget justifications.

My preliminary review of this analysis indicates that it would not be healthy for anyone of us to be around in FY 96 when so much expiring authority will come due.

Does it concern you that our decisions on current multi-year housing contracts may give rise to significant budgetary problems in the future?

Answer: All subsidized housing programs were designed so that at contract renewal, an evaluation of housing need, housing availability, rents, and incomes could be made to determine whether contract extensions or some other alternative would be necessary. Under the Section 8 program, the first contract expirations will occur in fiscal year 1990. It should be noted, in fact, that the problem of contract renewals is not caused by the Voucher Program but is caused, primarily, by the fact that the contract term on earlier programs is finally expiring.

The Department is very concerned about the budgetary impact of these contract renewals. As a result, the Department proposed in the 1987 Budget that these expiring contracts be renewed using Housing Vouchers. Not only is the Housing Voucher program a cost-efficient method of providing renewals but the term of contract under the Voucher program would allow more frequent review of the subsidized housing situation. If renewals were made with anything other than vouchers the budget authority cost would increase substantially.

PROTOTYPE COST

Question: Last year, Congress repealed the "prototype cost" provisions covering new Public Housing development because of concerns over its reasonableness. It was not our intent to remove the Department's authority over cost containment of new development, but simply to eliminate a sometimes arbitrary requirement of law. What steps are you currently taking to assure that new development costs are limited in a reasonable fashion?

Answer: Cost containment policy instructions have been prepared by the Department for both Public Housing and Indian Housing and are now being reviewed by the Office of Management and Budget (OMB). The instructions will provide cost "guidelines" to the Department's Field Offices for use in establishing project cost limits.

The instructions will provide the following guidance: (1) Public Housing Agencies will have an opportunity to comment on the guidelines and request changes; (2) Regional Administrators will be authorized to approve project cost limits 5 percent higher than Field Offices in order to provide greater flexibility; (3) the total development costs will serve as guidelines and there will be no separate constraint for dwelling construction costs and equipment alone; and (4) the Assistant Secretary for Public and Indian Housing no longer will be constrained by statutory limits in approving reasonable costs on a project-by-project basis.

MODERNIZATION

Question: This Committee has been very concerned over Federal efforts to improve and modernize existing public housing stock. Tens of billions have been invested over the years in public housing and although you propose to halt further development, it is crucial that we maintain this massive cumulative investment in low income housing.

Several years ago, we funded a new study on public housing modernization needs. We also urged aggressive action by HUD to permit and encourage more rapid utilization of modernization funds by PHA's.

Your Department is again proposing to hold down modernization funding to only "emergency repairs" items.

Why is comprehensive modernization and improvement of existing public housing such a low priority for the Deparment?

Answer: The Administration feels that the Comprehensive Improvement Assistance Program (CIAP) is important and full resumption of the program is planned in 1988 at a $760.9 million capital grant level. The levels requested for 1986 and 1987 reflect the Department's attempts to curtail Federal spending in order to reduce the deficit. Furthermore, there was an unexpended balance of $2.7 billion of capital funds (loan authority) at the end of 1985 for ongoing modernization projects in the pipeline. The Department believes that the funding requested will be adequate to meet emergency needs of the Public Housing Agencies and Indian Housing Authorities while they complete the modernization work in the pipeline. For both 1986 and 1987, the Budget requests authority to finance $225 million of capital costs for emergency modernization. In 1986, modernization will be financed under the traditional 20-year debt amortization method. This will require $458 million of budget authority to finance $225 million of capital costs (loan authority). In 1987, the Budget proposes that modernization be funded on a capital grant basis requiring only $225 million of budget authority.

VA HOME LOAN GUARANTY PROGRAM

Question: This Subcommittee has jurisdiction over the VA Home Loan Guaranty Program--as well as FHA. Although there are several significant differences in the specific requirement of these programs, the fundamental structure of their operations are remarkably similar.

Furthermore, much has been initiated by HUD to automate and make more efficient FHA loan processing, notably direct endorsement of applications for loan guarantee.

Question: Do you feel that VA is making similar strides towards program efficiency?

Answer: The Department has not tried to evaluate the program delivery efficiency of the VA.

Question: Have you studied possible efficiencies of having your Department handle loan processing for VA?

Answer: While we have not studied the possibility of HUD's processing VA applications in any detail, and have not discussed it with the VA, such a merger of administrative functions is conceivable. However, the issue would require much more study before any definitive proposals could be considered.

PROJECT SELF-SUFFICIENCY AND HOMEOWNERSHIP DEMONSTRATION

Question: This Committee has been supportive of the initiatives of your Office of Policy Development and Research in exploring not only new approaches to low income housing, but also to provide a more generalized information base on which to promulgate administration policy with respect to not only housing, but the effectuation of the underlying societal goals reflected in our housing program.

In this context, can you elaborate on your goals for "Project Self Sufficiency" and the "Public Housing Homeownership" program?

Answer: Consistent with the President's often expressed desire to encourage public/private partnerships and to bring poor people from dependency to self-sufficiency, the goals of Project Self-Sufficiency are:

- -- to use Section 8 Existing Housing Program certificates as an incentive to leverage existing public and private resources providing services to low-income households;
- -- to improve the efficiency of the use of our Section 8 Existing Housing Program certificates (and housing vouchers); and,
- -- to bring welfare-dependent, single-parent heads of households (our largest poverty population), to self-sufficiency.

The Public Housing Homeownership Demonstration has the following three goals:

- -- to improve the quality of life of public housing residents by providing them the opportunity of homeownership;
- -- to provide adequate information to support any future legislation or policy decisions on low-income homeownership programs; and,
- -- to develop effective regulations for implementation of Section 5(h) of the 1937 Housing Act, as amended, which allows the sale of public housing units to residents.

UDAG ADMINISTRATION

Question: The proposed rescission of funds to terminate the UDAG program will expire at the middle of this month. Please outline your plans to utilize these funds should Congress fail to rescind these funds.

Answer: Now that the proposal to rescind the remaining FY 1986 Urban Development Action Grant (UDAG) funds has expired, funding rounds are being resumed. For the remainder of the fiscal year, the UDAG program will receive new applications and make awards based upon the following schedule:

FOR METROPOLITAN CITIES AND URBAN COUNTIES:

Submit applications between	Announcements by
April 30 and May 16	early July
July 1 and July 31	early October

FOR SMALL CITIES:

Submit applications between	Announcement by
May 1 and May 31	early August

ADMINISTRATION

Question: In addition to reducing the aggregate levels of new budget authority for HUD programs for the past several years, it appears that significant new initiatives have been undertaken by your Department to reduce employment and administrative costs.

We have heard much rhetoric on catch phrases such as new management efficiencies, debt collection, and adoption of private sector approaches to Government activities. Can you identify how your Department is achieving real savings for the taxpayer in your everyday operations?

Answer: One example of how the Department has achieved significant savings for taxpayers is in the employment reductions accomplished since January 1981. From then through March 1986, HUD's full-time staff was reduced from 15,888 to 11,305, dropping by 4,583 or 29 percent from the earlier date. This is making possible a saving of $160 million annually.

These staff savings were made possible by program reductions and by improvements in HUD management, such as the expanded use of better technology--modern automated data processing, up-to-date office equipment and microcomputers. Automation has yielded significant savings and improvements, particularly in the Department's financial management.

In 1981, less than 40 percent of the Department's financial systems were automated and that automation reflected the technology of the 1950's. In 1985, approximately 99 percent of the Department's financial systems were automated. The automation not only made the work less staff intensive--permitting staff reductions--but also greatly enhanced the quality and timeliness of information available to management. For example, we have, over that time period, reduced the time required to process claims from 6 months to 5 days (also reducing the number of forms involved from 32 to 1). As a result of the more rapid processing, we have reduced interest payments, owed by HUD, approximately $22 million a year. An example of the benefits realized from improved information is our increase in the income from short term investments from $594,000 in fiscal year 1980 to $4.7 million during fiscal year 1985. The improved and more rapid processing has also resulted in annual savings of over $5 million a year related to penalities and late fees.

In other less dramatic, but no less significant, areas we have also had impressive savings. Improvements to our records management program consists of destroying unnecessary paper, removing records to the Federal Records Center more rapidly and converting records to microfiche. Since January 1981 we have destroyed more than 223,300 cubic feet of paper--the equivalent of more than 22,400 five-drawer filing cabinets and converted almost 20,000 cubic feet of records--the equivalent of approximately 2,600 five-drawer file cabinets--to microfiche. Also since that time we have increased our holdings at the Federal Records Center by more than 237,000 cubic feet.

The space saved as a result of the elimination of paper or the conversion of records to microfiche has contributed to the Department's overall space reduction efforts which have resulted in [illegible] annual rent of approximately $11.5 million. In fact, H [illegible] three agencies who have already met their Reform '88 sp reduction goal.

We have also, through a close analysis of our communications needs which involved reassessing the mail classifications and manner in which printed materials are distributed and the types and number of telecommunications equipment being used, reduced postage costs by $2.8 million and telecommunications costs by $6.6 million.

Our management upgrading efforts have also included improvement to the control over procurement actions. As a result of such efforts in the contracting area we reduced the number of non-competitive procurements from 29.2 percent of the total contract actions in 1981 to 6.4 percent in 1985. The related dollar volumes dropped from 40.3 percent to 7.3 percent. Though we cannot cite specific dollar savings resulting from the change, it is not unreasonable to infer that the increased competition has yielded savings.

INSURANCE COSTS AND PERFORMANCE FUNDING SYSTEM APPEALS

Question: A matter of continuing concern to this Committee has been the issue of Public Housing Authority Operating Subsidies. We are very sensitive to the ongoing needs of PHA's to efficiently maintain and operate public housing.

Currently this program is based on estimates of housing authority costs based on 1976 data, records a decade old. As such it does not reflect errors in its basic computation nor in changes in operating costs over the years ... especially insurance premium costs. First, what is HUD doing with respect to the skyrocketing costs of liability insurance premiums faced by PHAs?

Secondly, with respect to individual appeals for adjustments in the PFS formula, and the Committee's directive to analyze this problem on a comprehensive basis, what has the Department done to assure more appropriate operating subsidies?

Answer: First, with respect to increased insurance costs, the Department surveyed 407 PHA's in October 1985 to obtain more information on the premiums paid and loss experience of PHA's. The survey reflected an average increase in premiums of 57 percent for fire and extended coverage and an average increase of 131 percent for general liability coverage for the period covered (i.e., renewals that occurred through October 1985). Reports since October have indicated that rates for new insurance policies have much larger increases than indicated by the survey.

As of April 23, 1986, therefore, HUD had granted waivers from the requirements of Section 305 of the Annual Contributions Contract to 76 Public Housing Agencies (PHA's) at their request. Section 305 requires PHA's to carry adequate fire and extended coverage and general liability insurance.

In addition, HUD has provided technical advice and assistance to PHA's at numerous workshops and training seminars held by the National Association of Housing and Redevelopment Officials (NAHRO) and the Council of Large Public Housing Authorities (CLPHA). Meetings also have been conducted with CLPHA, NAHRO and several State PHA associations since these interested groups are searching for a viable solution to the present insurance crisis. Also, meetings have been held with executives of national property/casualty insurance companies to explore all possible means to solve the PHA insurance problems.

Over the past several months, the Department also has worked closely with the Illinois Association of Public Housing Authorities to form the Assisted Housing Risk Management Association (AHRMA). AHRMA is a group of 85 PHA's that have joined together to fund a cooperative program of risk management and the payment of losses incurred by members to cover fire and extended coverage damages and legal liability losses brought against member PHA's. AHRMA has submitted a proposal for State-wide self-insurance. Under the proposal, each PHA would make a contribution and a management firm would administer the fund. A similar concept is being considered by PHA's in Oregon, Washington and California. In addition, both NAHRO and CLPHA are studying the feasibility of forming a national self-insurance fund to be supported by PHA's.

Because the 1987 Budget estimates exclude additional Operating Subsidy funds for any increased non-utility expenses, including insurance costs, the PHA's and Indian Housing Authorities (IHA's) will need to fund increased insurance costs from available resources in 1987.

Second, with respect to adjustments to the Performance Funding System (PFS) formula for determining Operating Subsidies, PHA's have suggested the need for an appeals system to the PFS formula to: (1) correct anomalies in the base years of certain PHA's; (2) reflect changes in operating conditions since the base year; and (3) reflect the higher cost of doing business in economically distressed areas. The Department has not requested funds to support an appeals system. If corrections are to be made in the current formula such corrections should include not only the upward adjustments inherent in "appeals," but downward adjustments as well for PHA's or IHA's that are receiving more subsidy than other PHA's/IHA's operating in comparable circumstances.

In an effort to devise a more equitable approach, the Department developed in 1984, a revised formula for estimating non-utility costs. The revised cost equation was based on a broader array of factors than on the current PFS formula, including several factors relating to economic distress and the PHA's/IHA's operating conditions. It better reflected costs related to family size, percent of units occupied by families, size of PHA and distressed communities. In addition, the revised formula more accurately reflected the relative costs among PHA's/IHA's based on past experience.

After carefully analyzing the impact of the revised formula on the allowable expense levels of PHA's, the Department decided against implementation because the redistributional effect of the proposed formula would be relatively small and it would be disruptive to implement a totally new formula for a modest redistribution of subsidies.

INVENTORY

Question: Housing advocacy groups have expressed an interest in requiring the Department to provide new subsidy assistance to low-income families in HUD-insured or inventory developments whether or not they are currently subsidized. This has led to Congressional legislative initiatives which will add significant budgetary responsibility for such units.

What is your Department's position with respect to such legislation?

Answer: The Department does not support legislation which would require new subsidies for projects whether or not they are currently subsidized. The tremendous cost of such an undertaking would be prohibitive. Open-end subsidy assistance to these projects would place an inordinate burden on Federal spending during a period when a major concern is reducing the Federal deficit. Under the current Section 8 regulations for HUD-insured, HUD-held projects, project owners must submit applications, meet selection criteria and be approved before Section 8 assistance is available. Priority is given to those HUD-insured or HUD-held projects which presently have serious financial problems and which are likely to result in a claim on the insurance fund in the near future. To the extent resources remain available, assistance may also be provided to those projects where a claim on the FHA Fund may occur within 5 years.

Under the HUD-owned disposition regulations, projects are selected for Section 8 based on final disposition programs with consideration given to minimizing the displacement of tenants.

VOUCHER AND SECTION 8 FEES

Question: Last year, Congress directed HUD to exercise flexibility in reducing rates of reimbursement to administering agencies for the voucher program and the Section 8 certificate program, reflecting local variations in administration costs.

What has been your Agency's response to this directive?

Answer: The Senate Committee's direction was made in the context of a proposed 10 percent reduction in fees, and on an assumption that the fees were intended to fully cover the administrative costs of the local administering agencies. The Department has not implemented the Committee's direction but, instead, is proposing major revisions in the fee structure. The current budget proposal would equalize the fees paid under the Voucher and Section 8 Existing Housing Certificate programs in order to avoid possible incentive to the local agencies to favor the Certificate program over the Voucher program. A second proposal would require cost-sharing by the local agencies, by capping the administrative fees paid by the Department to no more than 50 percent of the Secretary's estimate of the cost of proper and efficient administration of the program. This would make the fee arrangement similar to that which governs other low-income assistance programs.

such as food stamps, AFDC, and Medicaid, and is reflective of the role of the programs under the Housing Act of 1937 as assisting local housing programs.

Question: It has been suggested, with respect to the Voucher program, that agencies, other than the local PHA, be permitted to administer the program.

What consideration has HUD given to this proposal?

Answer: We are not aware of any specific suggestions along these lines. We note, however, that while the current statute requires that a voucher program be administered by a "public housing agency," that term itself is defined broadly to include any "State, county, municipality, or other governmental entity or public body (or agency or instrumentality thereof) which is authorized to engage in or assist in the development or operation of lower income housing." Therefore, the statute clearly permits program administration by public agencies other than the traditional public housing authorities. It does not currently permit administration by private agencies.

Question: Do you feel that it has significant merit in terms of better utilization of the program?

Answer: We have not explored the merits of having agencies other than traditional public housing authorities administer the Voucher program, principally because other candidates have not been presented to us.

VOUCHERS

Question: Last year, this Committee recommended that, with respect to the FY '86 Voucher program, the mandated requirement for a formalized study of its effectiveness relative to Section 8 certificates and association with the Rent Rehabilitation program be dropped.

What success have you experienced with the program both, previously under these legislative constraints, and currently with more of an operational approach?

Answer: The Senate Committee recommended that 1986 Vouchers be administered outside the constraints of the demonstration requirement applicable to the FY 1985 program. In addition, the Senate Committee recommended waiving the provision of existing law which stipulated that substantially all vouchers be associated with the Rental Rehabilitation program.

Current data indicates that for those vouchers reserved in fiscal years 1984 and 1985 in conjunction with the Rental Rehabilitation program (40,000 reservations), ACCs have been executed for 20,318 units with those under lease numbering 618. For the remaining 1984 and 1985 voucher reservations of 12,475, (including those for the large and small Public Housing Authority demonstration studies), 9,606 ACCs have been executed with 3,360 under lease. For fiscal year 1986 (as of March 31, 1986) 9 vouchers have been reserved.

We expect units under lease to increase significantly as a result of growing PHA familiarity with the program and fewer of the requirements attributable exclusively to the demonstration nature of the 1984 and 1985 funding levels.

PHA RECONSTRUCTION

Question: Congress mandated that 20 percent of the new FY 86 PHA development funds be set aside for major reconstruction. Although these funds are currently impounded, have any plans been made with respect to this set-aside should Congress fail to approve continued delay in program implementation?

Answer: The appropriation language provides that up to 20 percent of the budget authority of $978.9 million provided for Public Housing development/acquisition is to be used for "major reconstruction of obsolete Public Housing projects." The applicable budget authority would be adjusted from $978.9 million to $940.4 million based on the Gramm-Rudman-Hollings Act sequestration. Therefore, up to 20 percent of the adjusted amount ($188.1 million of budget authority) would be available for major reconstruction purposes should all funding (except sequestered amounts) be released for use in 1986.

The Department plans to manage the program according to the normal rules for modernization since these are appropriate for reconstruction as well as lower levels of rehabilitation. The Field Offices will use the applicable cost limit guidelines that will be issued for development. Those guidelines will represent the full cost of dwelling construction and equipment, i.e., replacement of the total building. However, wherever necessary, the Assistant Secretary for Public and Indian Housing will be able to approve higher costs.

Also, Public Housing Agencies and the Field Offices will be encouraged to explore innovative approaches to the revitalization of these high-need projects, including but not limited to changes in unit size; reconfiguration for more open space, lower density or defensible space, and conversion to a different occupancy.

OPERATING SUBSIDIES

Question: What is your latest assessment of PHA Operating Subsidies -- both with and without Congressional concurrence with your legislative initiatives to reduce Federal exposure for local costs?

Answer: The estimates for both 1986 and 1987 have not been revised from those included in our 1987 Budget Submission. Data currently are being collected which will allow the Department to better assess 1986 and 1987 requirements. However, insufficient information exists at this time to develop re-estimates.

The table below outlines operating subsidy requirements for 1987 as presented in the 1987 Budget and the impact of selective factors on total costs. As indicated in the table, failure of Congress to go along with the proposals on freezing non-utility PHA/IHA expenses would result in a cost increase of $87.2 million in 1987.

REQUIREMENTS	1987 ESTIMATE (In Millions)
Performance Funding System (PFS)	$1,412.0
Non-PFS Projects	54.3
Increase in rental income from 1981 legislation	-37.1
Savings from "rolling-base" system for utilities	-68.8
Cost of vacancy policy implementation	11.7
Subtotal, Requirements	1,372.1
Less: Freeze on increases in non-utility expenses	-87.2
Total Requirements	1,284.9
Less: Impact of 1986 Sequestration (P.L. 99-177)	-52.1
Total Funds Available	1,232.8

QUESTIONS SUBMITTED BY SENATOR LEAHY

1987 DEFERRAL PROPOSALS

Question: Mr. Pierce, in the 1987 budget, you proposed two major deferrals:

-- $2.3 billion for assisted housing
-- $500 million for Community Development Block Grants

OMB Director Miller has indicated that deferral authority is now the equivalent of the line-item veto. Do you agree? Did you request these deferrals or did OMB order them?

Answer: We are unfamiliar with the remarks attributed to Mr. Miller and do not know whether the characterization of them is fair. We would not equate deferral authority with a "line-item veto" because a deferral affects only the timing of an obligation. The deferred amounts eventually become available for the purposes of the appropriation, unless Congress itself, by subsequent appropriation, changes their purpose.

HUD did not propose the deferrals mentioned in its FY 1987 budget submission to OMB. However, HUD's budget submission was made well before enactment of Gramm-Rudman-Hollings. The President's Budget presents a blueprint for meeting the mandated deficit reduction targets, beginning with program level changes starting in FY 1986. We support the President's Budget, including the deferrals proposed for FY 1986.

GNMA MORTGAGE-BACKED SECURITIES

Question: Mr. Pierce, it is my understanding that GNMA (Ginny Mae) announced yesterday that it had reached its loan guarantee ceiling. Is that correct?

Answer: Yes. On April 7, 1986, GNMA announced that it had cut off approving all new commitment requests received after April 4, 1986, until Congress increased GNMA's credit limitation.

Question: In last year's report (p. 20), the Subcommittee directed the Department to closely monitor both FHA and GNMA program performance during fiscal year 1986 to assure the limitations provided for these programs did not obstruct the housing recovery. Why did the Department not inform the Committee before the hearing that the loan guarantee limits had been reached?

Answer: As the mortgage interest rates continued their decline through the second quarter of 1986, re-estimates of GNMA and FHA requirements for the year were made. During the last week in March, the Department forwarded a letter to OMB recommending that, based on the re-estimates, the Administration propose an urgent supplemental to increase the FHA and GNMA credit limitation. Committee staff were kept advised through this period in accordance with the report directions.

In the case of the GNMA shutdown, the demand for GNMA commitment authority resulted in an unexpectedly large daily drawdown of available authority. This caused the shutdown shortly before this hearing. Committee staff were advised of this as soon as the action took place.

RESCISSIONS AND DEFERRALS

Question: Mr. Pierce, just a few months ago the Congress passed and the President signed the HUD Appropriation Act for 1986. It included a balanced program, funding 108,000 new units. In your package of rescissions and deferrals for 1986, submitted in February, you submitted a completely different housing program--you switched almost all of the units to vouchers. Do you believe the deferral and rescission process should be used to change program priorities established by federal law and signed by the President?

Answer: The Budget and Impoundment Control Act of 1974 provides the President with an opportunity to propose changed priorities in order to respond to revised circumstances.

The Administration has sought to reduce Federal expenditures and thus the Federal annual deficit by proposing program levels both in 1986 and 1987 that can achieve cost efficiency and simultaneously provide a significant level of housing assistance. To attain these objectives a full-scale voucher program was proposed for 1986 and 1987. The rescission and deferral proposals for 1986 are consistent with the housing assistance objectives in the Budget. The deferral of funds in 1986 is proposed to support the entire program level in 1987, precluding the need for an appropriation.

PHA FEE

Question: In last year´s Senate report (pp 10-11), the Committee expressed concern about the proposed 10 percent fee reduction. The Committee went on to note that ". . . whatever administrative fee structure is utilized by the Department, it recognizes the significant variations experienced by individual authorities in carrying out their responsibilities under these programs." The Committee also directed that the Department ". . . institute a procedure whereby PHAs and other administering entities, who can demonstrate costs in excess of the new fee structure, are permitted to receive additional reimbursement." What action has HUD taken in response to these two portions of the Committee report?

Answer: The Department [illegible] not implemented the Committee´s direction but, instead, is proposing major revisions in the fee structure. The current Budget proposal would equalize the fees paid under the voucher and Section 8 Existing Housing Certificate program in order to avoid possible incentive to the local agencies to favor the Certificate program over the Voucher program. A second proposal would require cost-sharing by the local agencies, by capping the administrative fees paid by the Department to no more than 50 percent of the Secretary's estimate of the cost of proper and efficient administration of the program. This would make the fee arrangement similar to that which governs other low-income assistance programs, such as food stamps, AFDC, and Medicaid, and is reflective of the role of the programs under the Housing Act of 1937 as assisting local housing programs.

TAX STATUS OF PUBLIC HOUSING DEBT INSTRUMENTS

Question: During last year's hearing, and in subsequent correspondence, the Committee and the ranking minority member urged HUD and the IRS to immediately clarify the tax status of all public housing debt instruments.

Please provide a listing of all action taken by HUD after the hearing to clarify this tax question.

Please provide a copy of any written materials prepared by HUD after last year's hearing in which HUD attempted to gain clarification of the tax status of public housing debt instruments.

Please provide a monthly breakdown of all outlays associated with the buy out of public housing instruments caused by the change in the tax laws which raised questions about the tax exempt status of these instruments.

Answer: During the past year the Department of Housing and Urban Development and the Internal Revenue Service have worked together to clarify the tax status of public housing debt instruments.

Below is a chronological account of HUD-IRS actions taken since March 1985.

- March 4, 1985 - IRS and HUD staffs met to discuss Section 103 of the IRS rules which relate to "arbitrage"--earnings derived from tax-exempt funds--and its applicability to Public/Indian Housing Financing. The meeting was initiated by the IRS.

- April 4, 1985 - Based on the March 4 meeting, a memorandum was sent to all HUD Regional Offices requesting information on excess financing.

- May 30, 1985 - IRS and HUD staffs met at the IRS to discuss the forthcoming IRS ruling and the results of HUD's inquiry into excess financing of projects. It was at this time, HUD was first informed that the ruling would be a letter ruling and not a revenue ruling.

- June 11, 1985 - IRS issued a letter ruling addressing rollover project notes. The ruling indicated that new notes issued with respect to a complete project whose financing was in a pure "rollover status" prior to June 19, 1984 would not conflict with IRS arbitrage bond requirements. However, such requirements must be met with regard to any new funds obtained through financing occurring after June 19, 1984, the effective date of the Deficit Reduction Act of 1984.

- June 20, 1985 - HUD issued a press release indicating, among other things, the following: (a) the Department had received the ruling; (b) the Department had introduced legislation revising the public housing finance system to a capital grant system, a system which included the forgiveness of certain outstanding HUD loans to PHA's and Treasury loans to HUD; (c) that as a matter of law, a letter ruling could not be relied upon by any taxpayer and could not be used or cited as legal precedent; and (d) that in view of the public housing financing reform proposal pending in Congress, the Department did not plan to take any steps toward a resumption of tax-exempt financing.

Attached are copies of the written materials referenced above which were prepared by or received by HUD during attempts to gain clarification of the tax status of the public housing debt instruments.

Below is a monthly breakout of all outlays associated with the buy out of public housing debt instruments caused by the change in the tax-exempt status of these instruments.

Month	Amount (In Millions)
September 1984	$997.4
October 1984	1,585.5
November 1984	1,426.8
December 1984	1,750.7
January 1985	1,783.3
February 1985	1,198.7
March 1985	1,268.4
April 1985	1,306.5
May 1985	1,000.6
June 1985	757.3
July 1985	933.6
Total	14,008.8

A provision to forgive public housing debt was included in the Consolidated Omnibus Budget Reconciliation Act, which was signed into law on April 7, 1986. This precludes the necessity to market any public housing debt instruments, tax exempt or not, since all loans that are made will be forgiven. Additionally, there is pending before the Congress a provision to finance public housing development and modernization through a grant mechanism. This would eliminate the loans mechanism altogether.

MEMORANDUM FROM JOHN J. KNAPP, GENERAL COUNSEL, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

March 4, 1985

MEMORANDUM FOR: Michael Taliefero, Office of Insured Housing
and Finance

FROM: John J. Knapp

SUBJECT: Public Housing Notes -- IRS

If I understand it rightly, I think that what the IRS told us about their position on ruling (3) comes down to this:

> (1) Development projects that reached close-out before 6/19/84, and accordingly had their excess proceeds taken care of one way or another -- either applied to down-sizing notes or otherwise expended for a "good governmental purpose" -- don't have to be re-examined; so long as what has occurred since then is pure refunding.
>
> (2) Development projects from which there may still have been excess income on hand at June 19, 1984, constitute a separate category. As to these, there must be an examination to determine that they will satisfy the arbitrage requirements at the time that a refunding obligation is issued. This would mean applying any excess income at that time to down-size the amount of the refunding issue. This means, I believe, that we could not market a refunding issue relating to any project that has not been closed out.

If this is correct, then we must determine the size of the two separate categories. Ask Joe Sens to give us the size of each, in terms of both number of projects and dollar volume in total. If it is hard to tell because of consolidation of a number of projects into a single note issue, then the impact of that complication must also be explored.

If my understanding is correct, then the IRS ruling must clearly delineate between the two. That is, it must state clearly just what is grandfathered (because it took place before June 19, 1984) and what is not. This may require a fuller description of the "close-out" process. But I believe that that should be discussed with IRS after we know the size of the categories and whether, as a practical matter, we even can clearly divide the outstanding debt between them.

MEMORANDUM FROM JOSEPH H. SENS, DIRECTOR, OFFICE OF FINANCE AND BUDGET, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

APR 4 1985

MEMORANDUM FOR: SEE ADDRESSEES BELOW

FROM: Joseph H. Sens, Director
Office of Finance and Budget, PF

SUBJECT: Public Housing - Project Financing

The issuance and sale of Public Housing Project Notes was suspended last September due to changes in the Internal Revenue Code affecting that Tax Exempt status of such Notes. After several meetings with representatives of the IRS and Treasury it now appears that sales of Project Notes may be resumed with respect to projects which meet certain conditions. One of these is that with respect to projects which have been completed and for which an Actual Development Cost Certificate has been approved it is necessary to determine whether there remain unexpended excess funds advanced against a Project's maximum loan authority. For purposes of this inquiry, excess funds are defined as funds advanced to the PHA which exceed the amount established as the Actual Development Cost by means of an Actual Development Cost Certificate. "Advanced" includes funds provided the PHA through direct federal loans under a Project Note or Permanent Note, or obtained by the PHA through issuance and sale of Project Loan Notes.

To determine whether Projects previously financed through sales of Project Loan Notes (including projects with outstanding Project Notes which mature between now and Septemer) may be refinanced through the sale of Project Loan Notes, certain information is required. To assist you in providing this information there are attached lists of Projects which our records indicate have reached ADCC. In some instances our records also indicate that certain Projects did receive excess funds. For these and any other Projects which your records indicate have reached ADCC and have excess funds, please provide the following information on the attached sheets:

a. amount of excess funds for each project (Column 3);

b. the amount of income earned on the excess funds from the date of ADCC approval (Column 4);

c. please insert, if applicable, remarks regarding the following (Column 5):

(i) how the excess funds (including earned interest) were used, (e.g., remitted to HUD for reduction of outstanding notes; or applied to operating, specific or general PHA expenses); (ii) whether any funds remain available, and if so what effort is being made to recover the funds; (iii) any peculiar or special circumstances related to the project which may have created the excess funds situation; (iv) whether the project financed is (or was) managed pursuant to a private management contract; and (v) whether the project financed has been sold to tenants pursuant to any traditional or demonstration homeownership program. Please use additional sheets to continue Column 5 "Remarks", if necessary.

If there is a project that is not reflected on the attached list for which project notes were sold to cover the project's indebtedness, please include such project on the list and submit the requested information.

Please note that projects which were permanently financed through the Federal Financing Bank (FFB) or with bonds should not be included on the attached list.

Please provide the information to the Office of Finance and Budget, Project Financing Division, by April 15, 1985. If there are any questions, please contact Mr. George C. Davis at 755-6444.

Attachments

HUD Meeting

Rm: 5304 Time: 10 A.M.
5-30-85

George C. Davis	Acting Director Project Finance Division
Theodore R. Daniels	HUD
Joe Sens	PIH - Office of Finance & Budget
Susan Tanaka	OMB
Michael Esposito	OMB
Joe Gelletich	HUD/OGC
Michael Taliefero	HUD/OGC
A. J. Kliman	Director, HUD Office of Buget
John Knapp	General Counsel, HUD
Mario Lombardo	CC:IND
Leon Kennedy	CC:IND:S
George Kelley	CC:IND:S

Letter From Mario E. Lombardo, Director, Individual Tax Division, Internal Revenue Service

11 JUN 1985

Mr. John J. Knapp
General Counsel
U.S.Department of Housing
and Urban Development
Washington, D.C. 20410

Dear Mr. Knapp:

This is in response to your letter dated November 1, 1984, in which you request nine rulings concerning the Federal income tax consequences of certain public housing project note financings.

In your letter you describe the financing method Public Housing Authorities ("PHA"s) currently use to finance housing projects and a proposed financing method, termed a "revised model transsaction", by which prospective new money issues are expected to be issued.

As discussed at our conference on March 4, 1985, this letter ruling addresses only the Federal income tax consequences of obligations issued by the PHAs that roll over prior notes initially issued prior to June 19, 1984, issued pursuant to section 11(b) of the United States Housing Act of 1937 (the "Act"). The subject of financings issued pursuant to the revised model transactions and, in particular, rulings numbered (5) and (9) in your letter will be addressed in a separate communication to you.

The remaining seven (7) rulings relate to notes issued to roll over prior notes issued pursuant to section 11(b) of the Act prior to June 19, 1984, the relevant effective date of section 103(m) of the Internal Revenue Code. It is our understanding that notes will not be issued to roll over obligations issued pursuant to statutes other than section 11(b) of the Act, such as urban renewal project notes issued pursuant to section 102(g) of Title I of the Housing Act of 1949.

Notes issued pursuant to section 11(b) of the Act are used to finance low income housing facilities. The information we have received discloses that the low income housing facilities are owned by the PHAs and either are operated by the PHAs or, in exceptional situations, by nonexempt persons under management contracts that meet the requirements of Rev. Proc. 82-14, 1982-1 C.B. 459.

PHAs authorized to issue section 11(b) project notes include Indian Housing Authorities ("IHA"s). Low income housing facilities owned and operated by IHAs listed in Rev. Proc. 83-87, 1983-2 C.B. 606 and Rev. Proc. 84-36, 1984-17 I.R.B. 26 are owned and operated by exempt persons within the meaning of section 103(b)(3) of the Code.

Notes issued by IHAs under the Mutual Help Homeownership Opportunity Program and notes issued by PHAs under the Turnkey III Homeownership Program raise questions whether such notes are mortgage subsidy bonds under section 103A of the Code. We will require additional information to resolve these questions.

Typically, PHA notes are advertised for sale locally and nationally and lots of 100 or more project notes are marketed together by HUD. On the bid opening date, HUD, acting on behalf of PHAs, accepts the bids and awards the project notes.

Under enabling legislation any two or more PHAs may agree to consolidate the issuance of what would otherwise be separate notes into a single financing obligation. Thus, some of the 100 or more project notes marketed together by HUD include PHA notes issued by an "agent authority" PHA pursuant to a financing agreement that establishes an agency relationship between the issuer and the other participating "member authorities". This arrangement is termed a "member authority agreement".

Generally, a project note issued during the construction period for a project has a maturity of six months. A project note issued to refund prior financings of a completed project will usually have a maturity of twelve months.

Public housing projects are developed through new construction or through the acquisition of existing properties with HUD's financial assistance. HUD provides loans and annual contributions pursuant to a contract between the PHA and HUD termed an "annual contribution contract" (the "ACC").

The ACC establishes the amounts of loans and annual contributions HUD will provide to finance the development costs of a project. The ACC provides that a project's net income from rentals, if any, must be applied to reduce HUD's annual contributions.

A PHA may obtain funds for a project by requesting a HUD loan termed a "direct advance" under the ACC. Repayment of the direct advance occurs when the PHA issues its project notes to the private market.

Annual contributions commence after the close of the PHA's fiscal year in which the project is completed. Pursuant to provisions of the ACC, annual contributions are made by HUD to amortize the indebtedness that equals the actual development cost of the project.

The last marketing of project notes was in August 1984. Since then, the rollover of prior project notes has been effected through direct advances from HUD evidenced by loan notes executed by the PHAs in favor of HUD. It is contemplated that the proceeds of prospective project notes issued on the private market will be used to roll over these direct advances from HUD.

Under the financing method PHAs currently use to finance their construction projects, the investment earnings on a note issued during the project's construction period reduce the size of the next rollover of project notes. Because this financing method does not take into account the anticipated investment income earned on note proceeds in sizing that note, a question has arisen whether a note issued after June 18, 1984, to finance the construction phase of a project may be an overissuance within the meaning of section 1.103-13(b)(5)(iv) of the proposed Income Tax Regulations. A related question is whether under this proposed regulation a twelve month note issued after June 18, 1984, may be issued to roll over the six month construction period notes issued for the project before June 19, 1984.

The financing method PHAs currently use to finance their modernization projects is not addressed in this letter ruling. We will require additional information to resolve this matter.

Based upon the information submitted you have requested the following seven rulings relating to PHA notes that roll over prior notes issued pursuant to section 11(b) of the Act. In the interest of clarity, we have renumbered certain of these ruling requests.

(1) That a "public housing agency" as defined in section 3(b)(6) of the Act and referred to in section 11 of the Act whose obligations in connection with lower income housing projects issued before June 19, 1984, were treated as obligations described in section 103(a) of the Code, meets all qualifications for an issuer under section 103(a) of the Code.

(2) That the method of marketing project notes does not make all PHA notes issued on a single date part of the same "issue" under section 1.103-13(b)(10) of the regulations.

(3) That because project notes issued before June 19, 1984 are exempt under section 11(b) of the Act, if renewals thereof after June 18, 1984 are issued in a principal amount not exceeding the full principal amount of such prior notes plus accrued interest thereon and reasonable issuing expenses pertaining to the renewals, the original proceeds of any such renewal notes will not exceed the amount necessary for the governmental purposes of the issue and no proceeds of such renewal notes will constitute excess proceeds. (Ruling (6) in your letter).

(4) That pre-June 19, 1984 notes were deemed to be exempt under section 103(a) and therefore refundings of such notes are deemed to be obligations exempt under section 103(a) without regard to whether the pre-June 19, 1984 notes complied with the 1984 amendments to section 103(m). (Ruling (3) in your letter).

(5) That project notes issued to repay HUD loans (the proceeds of which were used to pay holders of notes maturing after June 18, 1984) are obligations exempt under section 103(a) if such notes comply with the 1984 amendments to section 103(m) but without regard to whether prior notes repaid by such HUD loans complied with the 1984 amendments to section 103(m). (Ruling (4) in your letter).

(6) That because project notes issued before June 19, 1984 are exempt under section 11(b) of the Act, the tax exemption of interest on notes issued after June 18, 1984 to refund those prior notes, and on further rollovers of such subsequent notes, will not be adversely affected by reason of any failure of compliance of the prior notes with any provision of section 103 or 103A of the Code. (Ruling (7) in your letter).

(7) That by reason of the exemption of interest on project notes issued prior to June 19, 1984 pursuant to section 11(b) of the Act without regard to the provisions of section 103(c) of the Code, any monies which, under section 103(c) of the Code, would have been deemed to be proceeds of such notes, do not become proceeds of the obligations issued after June 18, 1984 to refund such prior notes. (Ruling (8) in your letter).

Section 103(a)(1) of the Code provides that gross income does not include interest on the obligations of a state, a territory, or a possession of the United States, or any political subdivision of the foregoing, or of the District of Columbia.

Section 103(m)(1) of the Code provides that any obligation the interest on which is exempt under any provision of law other than a Code provision shall be treated as interest on an obligation described in section 103(a) only if the appropriate requirements of subsections (b), (c), (h), (k), (l), and (n) of section 103 are met and the requirements of section 103A are met.

Section 103(m)(2) provides that notwithstanding any other provision of law, no interest on any obligation shall be exempt under the Code unless such interest is described in section 103(m)(1) or is exempt from tax under the Code without regard to any provision of law which is not contained in the Code and which is not contained in a revenue Act.

Section 103(m)(3)(C) of the Code provides that any obligation issued before June 19, 1984, under section 11(b) of the United States Housing Act of 1937 is not subject to the requirements imposed in section 103(m)(1).

Section 103(b)(1) of the Code provides, with certain exceptions, that industrial development bonds shall not be treated as obligations described in section 103(a)(1). Section 103(b)(2) of the Code provides that the term "industrial development bond" means any obligation which is issued as part of an issue all or a major portion of the proceeds of which are to be used directly or indirectly in any trade or business carried on by any person who is not an exempt person, and the payment of the principal or interest on which is, in whole or in major part, secured by any interest in property used or to be used in a trade or business or in payments in respect of property, or borrowed money, used or to be used in a trade or business. Section 103(b)(3) defines an exempt person, as used in section 103(b)(2), to mean a governmental unit or an organization described in section 501(c)(3).

Typically, a PHA is a governmental unit and a project note issued to finance a housing project that is owned and operated by such a PHA is not an industrial development bond.

However, there may be exceptional situations in which existing projects are being used by nonexempt persons. Projects currently used by IHAs not listed in Rev. Proc. 83-87 or Rev. Proc. 84-36 and projects operated under management contracts that do not meet the requirements of Rev. Proc. 82-14 are examples of these situations.

Generally, we do not agree with the premise of several of your ruling requests that project notes issued before June 19, 1984, may be indefinitely rolled over without examination of whether the notes currently meet the requirements of the Internal Revenue Code. With respect to the industrial development bond status of project notes issued after June 18, 1984, to rollover project notes issued before June 19, 1984, for projects used by nonexempt persons, we believe it appropriate under section 103(m) to permit each issuer an opportunity to continue to issue tax-exempt rollover notes provided that the nonexempt person use ceases prior to the issuer's first rollover note that occurs 90 days after the date of this letter ruling. Thus, issuers will be afforded a one time opportunity to determine the industrial development bond status of rollover notes of project notes issued before June 19, 1984, regardless of any prior nonexempt use of the projects.

Because the individual project notes of separate PHAs are marketed together by HUD and sold at one monthly auction,the question arises whether, for industrial development bond purposes, the project notes are a single issue or many separate issues.

In determining the industrial development bond status of project notes marketed in a monthly auction after June 18, 1984, to roll over notes issued before June 19, 1984, we believe it is appropriate under section 103(m) that each of the notes be tested separately for purposes of section 103(b) of the Code. The following is our opinion as to how each of the relevant subsections of section 103 would apply.

A project note issued to rollover a pre-June 19, 1984 project note that is not an industrial development bond will not be subject to the public approval requirements of section 103(k) of the Code.

A project note issued to rollover a pre-June 19, 1984 project note that is not an industrial development bond will not be subject to the information reporting requirements of section 103(l) of the Code provided the user of the project is not an organization described in section 501(c)(3) of the Code.

A project note issued pursuant to section 11(b) of the Act is not a private activity bond within the meaning of section 103(n)(7) of the Code. Thus, each project note issued to roll over a pre-June 19, 1984 project note is not subject to the calendar year limitations on private activity bonds imposed by section 103(n) of the Code.

Section 103(h) of the Code provides generally that interest on a federally guaranteed obligation will not be excludable from gross income under section 103(a). Section 103(h)(3)(C)(i) provides a specific exception to the prohibition against federal guarantees for a housing program obligation described under section 11(b) of the Act. Section 103(h)(3)(C)(ii) provides that the exception in section 103(h)(3)(C)(i) does not apply where obligations are invested in federally insured deposits or accounts. However, section 103(h)(3)(B)(i) provides that investments during a temporary period under section 103(c)(4) of the Code in federally insured deposits or accounts will not cause the project notes to be federally guaranteed within the meaning of section 103(h) of the Code.

Section 103(c) of the Code is the final subsection of section 103 that a project note issued to refund a pre-June 19, 1984 note must meet under section 103(m)(1).

Section 103(c)(1) of the Code provides that, with certain minor exceptions, the interest on any arbitrage bond will not be excludable from gross income.

In determining whether project notes issued after June 18, 1984, to refund notes issued before June 19, 1984, are arbitrage bonds, the question arises whether each note should be treated separately or as part of a single issue.

Section 1.103-13(b)(10) of the regulations provides that obligations are part of a single issue for purposes of section 103(c) if they (A) are sold at substantially the same time, (B) are sold pursuant to a common plan of financing and (C) will be paid out of substantially the same source of funds.

We believe the term "common plan of financing" in section 1.103-13(b)(10) denotes a plan of borrowing for a defined common purpose and does not describe the notes issued by unrelated PHAs for their geographically distinct and separate projects.

Thus, under section 1.103-13(b)(10) of the regulations each note will be treated separately. In this regard a note issued by an agent authority under a member authority agreement will be treated as the single note of the agent authority.

Section 103(c)(2) of the Code provides that the term "arbitrage bond" means any obligation that is issued as part of an issue all or a major portion (more that 15 percent) of the proceeds of which are reasonably expected to be used directly or indirectly (A) to acquire securities or obligations that may be reasonably expected at the time of issuance of such issue to produce a yield over the term of the issue that is materially higher than the yield on obligations of such issue, or (B) to replace funds that were used directly or indirectly to acquire securities or obligation described in section 103(c)(2)(A).

Section 103(c)(4)(A) of the Code provides that an obligation shall not be treated as an arbitrage bond solely by reason of the fact that the proceeds of the issue of which such obligation is a part may be invested for a temporary period in securities or other obligations until such proceeds are needed for the purpose for which such issue was issued.

Section 1.103-14(b) of the regulations provides, in general, that original proceeds and investment proceeds of an issue of governmental obligations that are invested in acquired obligations during a 3-year period beginning on the date of issue are invested for a temporary period if the expenditure test of paragraph (b)(2), the time test of paragraph (b)(3), and the due diligence test of paragraph (b)(4) are satisfied. The time test requires that the issuer incur a substantial binding obligation to commence the project within 6 months after the date of issue. The due diligence test provides that after the substantial binding obligation is incurred, work on the facility must proceed with due diligence to completion. The expediture test provides that at least 85 percent of spendable proceeds (as defined in paragraph (b)(2)(iii)) must be spent within the temporary period.

When bonds are issued to finance a public project, the due diligence test is ordinarily satisfied whenever the issuer endeavors to spend the bond proceeds on the project with reasonable dispatch.

Section 1.103-13(b)(9)(B) of the regulations provides that in the case of an issue of obligations used partly to refund a prior obligation and partly for a governmental program, each part of the proceeds shall be treated as a separate issue for determining the temporary period requirements.

Section 1.103-13(b)(2)(ii)(A) of the regulations provides that "investment proceeds" are amounts received at any time by the issuer, such as interest and dividends, resulting from the investment of any proceeds of an issue of obligations.

Section 1.103-14(e)(2)(ii) provides that at the time that proceeds of the refunding issue discharge the outstanding principal of the prior issue, proceeds of the prior issue become proceeds of the refunding issue (hereinafter referred to as "transferred proceeds") and cease to be proceeds of the prior issue.

Section 1.103-13(b)(5)(iv) of the regulations provides a *de minimis* yield restriction at which the proceeds of an overissuance obligation may be invested. Generally, an obligation is an overissuance if it is reasonably expected that the original proceeds of an issue will exceed the amount necessary for the governmental purpose or purposes of the issue by more than 5 percent of such amount. A deliberate overissuance of less than 5 percent may be an arbitrage bond.

Section 1.103-13(b)(5)(iv) of the proposed regulations requires that investment proceeds shall be taken into consideration in determining whether an issue is an overissuance.

Subsequent to the completion of the construction of a project, project notes are typically issued annually that immediately retire the prior notes. In situations in which the construction financing phase was completed by pre-June 19, 1984 project notes, the overissuance yield restrictions are irrelevant because there appears to be no proceeds available for investment.

However, the overissuance regulations are relevant to other notes issued after June 18, 1984, including notes issued to roll over the next phase of a project's construction that began prior to June 19, 1984. Thus, under section 103(c) of the Code reference to notes issued prior to June 19, 1984, is appropriate in determining the status of refunding notes issued after June 18, 1984.

We believe that in sizing the post-June 18, 1984 rollover notes during a project's construction phase reference to prior notes is appropriate. However, a post-June 18, 1984 rollover note will not be an overissuance if during the construction period for the project the aggregate of the construction cost of the project including the interest paid by the issuer to noteholders during the construction period and the expenses paid for the issuance of the notes equals or exceeds the aggregate of the original proceeds of the notes used for construction purposes plus any investment earnings attributable to the proceeds of the notes.

Section 1.103-15 of the regulations provides the restrictions that apply to excess proceeds of a refunding obligation. However, under section 1.103-15 (f), this section does not apply to a refunding issue if the prior issue is discharged within 180 days after the refunding bonds are issued. Because the proceeds of the PHAs project notes immediately retire the prior notes, section 1.103-15 of the regulations is inapplicable to the project notes.

Based upon the information and representations submitted we conclude:

(1) That a "public housing agency" as defined in section 3(b)(6) of the Act and referred to in section 11 of the Act whose obligations in connection with lower income housing projects issued before June 19, 1984, were treated as obligations described in section 103(a) of the Code, meets all qualifications for an issuer under section 103(a) of the Code.

(2) That the method of marketing project notes does not make all PHA notes issued on a single date part of the same "issue" under section 1.103-13(b)(10) of the regulations.

(3) That the excess proceeds provisions of section 103-15 of the regulations are not applicable to PHA notes.

Ruling requests (4),(5),(6), and (7) set forth in this letter ruling present basically the same legal issue, namely, whether rollovers of project notes that were initially issued prior to June 19, 1984 are deemed to be exempt under section 103(a) without regard to whether the new notes comply with the requirements of the Internal Revenue Code. We do not agree. In regard to these requests, see our discussion on pages five through nine.

No opinion is expressed as to the consequences of the transaction under any section of the Code or the regulations except as specifically stated in this ruling.

This ruling is directed to the taxpayer who requested it. Section 6110(j) of the Code provides it may not be used or cited as precedent.

Sincerely,

Mario E. Lombardo
Director, Individual Tax Division

NEWS RELEASE

HUD No. 85-107
Peter Centenari (202) 755-6686
Robert Nipp (202) 755-6980

FOR RELEASE:
Thursday,
June 20, 1985

HUD RECEIVES IRS RULING ON PUBLIC HOUSING PROJECT NOTES

The Department of Housing and Urban Development said today that it had received a private letter ruling from the Internal Revenue Service regarding the tax-exempt status of "rollover" project notes issued by public housing agencies.

Project notes are issued by local public housing agencies to finance the construction and modernization of public housing projects and are secured by HUD's "full faith and credit" agreement to make full debt service payments to the local authorities. Prior to enactment of the Tax Reform Act of 1984, all interest on notes or long-term bonds issued by public housing agencies was made tax-exempt by Section 11(b) of the U.S Housing Act of 1937. However, the 1984 legislation made the tax-exempt status of notes or bonds issued after June 19, 1984, subject to compliance with Section 103 of the Internal Revenue Code.

Approximately $6.8 billion of long-term public housing bonds were outstanding at the time of the statutory change, and their tax-exempt status was not affected by the change. However, by far the greater part of the nation's public housing inventory has been financed by short-term notes that are continually rolled over at maturity. Aproximately $13.6 billion of short-term notes, maturing in twelve months or less, were outstanding at June 19, 1984. Under prior practice, these notes would have been "rolled over" at their maturities by new short-term tax-exempt issues.

Because of uncertainty regarding the tax-exempt status of notes issued after the change in legislation, HUD suspended offerings of new note issues in August 1984 pending a ruling by the Internal Revenue Service. As previously issued notes became due, they were retired out of direct loans by HUD to the local agencies, based on HUD borrowing from the Treasury. Through June 4, 1985, approximately $12.9 billion of previously outstanding short-term project notes were replaced by HUD direct loans. HUD said that it expects to replace all remaining short-term notes outstanding, totalling approximately $924,366,000, by July 30, 1985. In addition, approximately $1 billion in new funds for public housing development and modernization work in progress have been provided by similar direct loans.

While seeking a ruling from the Internal Revenue Service, HUD also introduced legislation to revise the public housing finance system to a capital-grant basis. Under this proposal, all outstanding HUD direct loans to public housing agencies, and the Treasury loans to HUD, would be forgiven, and new funds required for public housing development or modernization would be provided on a one-time grant basis rather than financed on a long-term basis through the tax-exempt market.

HUD said that the letter ruling that it has received discusses only the status under Section 103 of the Internal Revenue Code of public housing agency notes issued solely to roll over previously outstanding notes, or to repay HUD direct loans that were used solely to retire previously outstanding notes. The ruling does not discuss the requirements under the Code for notes issued to finance new development or modernization work. HUD said that the IRS indicated that these requirements would be addressed separately in a later ruling.

The principal area of uncertainty surrounding the tax-exempt status of notes issued after the 1984 legislative change involved satisfaction of the IRS's "arbitrage bond" requirements under Section 103 of the Code. HUD said that the private ruling indicates that new notes issued with respect to a completed project whose financing was in a pure rollover status prior to June 19, 1984, would not conflict with the arbitrage bond requirements. However, compliance with such requirements would be necessary in the case of notes issued with respect to a project for which any new funds were obtained through a financing which occurred after June 19, 1984.*

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*Approximately $2.8 billion of notes were issued on a tax-exempt basis in July and August 1984, after the effective date of the legislative change but before HUD's suspension of further offerings. In November 1984, the IRS gave assurance that these note issues would be considered tax-exempt, through "administrative relief," regardless of its eventual conclusions regarding the impact of the legislative change.

HUD said that, as a matter of law, the ruling addressed to it could not be relied upon by any taxpayer and cannot be used or cited as precedent. HUD noted that it could not say what evidence of compliance with the Code might be required by potential investors in the event that HUD sought to resume tax-exempt public housing financing. HUD said, however, that in view of the public housing financing reform proposal pending in Congress, it did not plan to take any steps toward a resumption of tax-exempt financing.

INCREASE IN 1991 BUDGET AUTHORITY

Question: In your current services budget (p. B-23), you show a sharp increase in budget authority in 1991 over the 1987-1990 trend line. Why does this big increase occur?

Answer: This increase in 1991 is the result of the need to refund expiring subsidy contracts. This requirement is reflected in both the President's 1987 Budget submission and the Current Services Budget. Contracts actually are estimated to begin expiring in 1990; but, 1991 is the first year in which significant numbers are expected to expire. The current estimate of refunding requirements for 1991 is $6.6 billion which will be needed to replace 302,847 expiring contracts with Vouchers.

QUESTIONS SUBMITTED BY SENATOR LAUTENBERG

RENTAL VACANCY RATES

Question: Mr. Secretary: You cite the rental vacancy rate for the third quarter of 1986--6.8 percent--as an indication that there is no shortage of low and moderate income housing. The number you cite, of course, is an aggregate for a very narrow slice of time. To give the Committee a more comprehensive picture of the extent to which the housing needs of low and moderate income families are being met, please provide the following data:

- The mean rental vacancy rate for all of 1985.
- The mean rental vacancy rate in 1985 by State.
- The mean rental vacancy rate for the 20 largest urban centers in the U.S.

Answer: The mean rental vacancy rate for all of 1985 was 6.5 percent, up from 5.8 percent for 1984. Rental vacancy rates are not available by State for 1985, and, in general, are not available except at each decennial census. The following table presents trends in rental vacancy rates for the 25 largest metropolitan areas, as reported by the Bureau of the Census.

Annual Rental Vacancy Rates for the 25 Largest SMSA's: 1981-1985

Vacancy data are not currently available relating to mid-sized cities. However, vacancy rates for the 25 largest SMSA's are available from the Bureau of the Census and are presented on the table below.

	Rental Vacancy Rate*				
	1981	1982	1983	1984	1985
1. New York, NY..............	2.2	2.7	2.9	2.2	2.6
2. Los Angeles-Long Beach, CA	3.1	3.7	3.2	3.4	3.7
3. Chicago, IL...............	4.3	4.6	5.4	5.4	6.5
4. Philadelphia, PA-NJ.......	4.7	5.1	5.3	5.6	4.0
5. Detroit, MI...............	5.6	4.4	4.9	5.2	5.4
6. San Francisco-Oakland, CA.	4.9	3.9	4.1	4.7	3.1
7. Washington, DC-MD-VA......	3.7	3.6	3.1	3.4	3.3
8. Houston, TX...............	6.4	7.6	13.9	15.4	18.1
9. Nassau-Suffolk, NY........	3.2	2.2	0.8	1.7	2.8
10. Boston, MA................	6.6	6.5	5.0	4.9	3.8
11. St. Louis, MO-IL..........	3.3	4.3	3.7	4.7	5.2
12. Pittsburgh, PA............	4.5	5.2	7.9	7.1	7.7
13. Baltimore, MD.............	5.9	5.6	4.9	7.0	5.2
14. Dallas, TX................	5.4	4.7	9.0	7.7	13.9
15. Anaheim-Santa Ana-Garden Grove, CA...............	2.8	2.9	2.7	2.5	2.9
16. Minneapolis-St. Paul, MN..	3.3	4.2	4.4	2.6	3.0
17. Cleveland, OH.............	4.7	6.1	6.6	6.7	4.8
18. San Diego, CA.............	4.0	4.2	5.3	2.8	4.4
19. Newark, NJ................	3.4	2.1	1.7	3.3	5.0
20. Atlanta, GA...............	7.8	8.0	7.4	5.9	6.4
21. Miami, FL.................	6.5	9.5	9.3	8.2	9.2
22. Seattle-Everett, WA.......	6.5	6.5	4.3	4.1	4.7
23. Denver, CO................	4.5	4.0	5.9	8.3	7.2
24. San Bernardino-Riverside-Ontario, CA.............	6.0	7.0	5.6	4.4	8.6
25. Phoenix, AZ...............	12.1	8.4	8.4	10.4	11.7

*Source: Housing Vacancy Survey, H-111, Bureau of the Census, estimates based on sample surveys.

NEW CONSTRUCTION/ELIGIBLE FAMILIES

Question: You also refer to the demand for newly constructed apartments in this connection, noting that only 67 percent of such units were rented within three months of completion. To put this number in better perspective, please provide the following:

* The total number of subsidized units constructed in 1983, 1984 and 1985.

Answer: The following table contains the subsidized units completed or made available for occupancy during FYs 1983, 1984, and 1985:

	UNIT COMPLETIONS		
	FY 1983	FY 1984	FY 1985
Number of New/Substantial Rehabilitation................	124,532	91,384	47,067

* The number of subsidized units with three or more bedrooms constructed in 1983, 1984 and 1985.

Answer: The estimated number of subsidized units containing 3 or more bedrooms which come under payment in FYs 1983, 1984, and 1985 follows:

FY	Units
1983	68,100
1984	44,800
1985	28,500

* The total number of subsidized units with three or more bedrooms available in 1983, 1984, and 1985.

Answer: The latest tenant characteristic surveys for the subsidized programs are from 1983 and at that time the number of subsidized units with 3 or more bedrooms was estimated at 1,126,000. The Department is currently developing a data system to provide such information during FY 1989.

* The number of families eligible for housing assistance in 1983, 1984, and 1985.

Answer: The 1983 Annual Housing Survey (AHS) is the most current source of information available on the number of families eligible for housing assistance. As of 1983, there were an estimated 12,927,000 very low-income renter households with incomes below 50 percent of the local area median family income. These included an estimated 9,716,000 families with 2 or more persons and 2,274,000 one-person, non-elderly households. These estimates include about 2,610,000 eligible very low-income renter households who were already assisted under HUD programs.

The estimates also include unassisted, income-eligible families without identifiable housing problems, who may not be in need of housing assistance. As of 1983, the number of unassisted very low-income families with highest priority housing assistance needs (defined as living in structurally inadequate buildings or paying more than half of their income for rent) was an estimated 3.9 million families.

Of these 3.9 million families, 707 thousand of them either lived in severely inadequate housing or were unable to afford fair market rents. This number had declined by 8 percent in the 1981-1983 period and we believe that during the economic recovery, during the 1983-1986 period, this has continued to decline. Of the remaining 3.2 million families (those with a rent burden above 50 percent of family income) some have, most likely, escaped from this condition due to the strong economic recovery since 1983.

* The number of eligible families with three or more children in 1983, 1984, and 1985.

Answer: As of 1983, approximately 1,451,000 very low-income families consisted of 5 or more persons. These included approximately 576,000 who were unassisted and were either occupying structurally inadequate housing or paying more than half of their income for rent. Distributions of eligible families by number of children are not readily available using 1983 data, but based on percentage relationships in 1981 AHS data, about 47 percent of all very low-income families contained 1 to 3 children, and 7 percent contained 4 or more children. The remainder were either elderly (35 percent) or non-elderly without children (11 percent).

PRODUCTION OF ASSISTED UNITS

Mr. Secretary, your prepared statement contained a couple of interesting observations having to do with the extended period of time between the funding of assisted housing programs and the actual production of assisted units. You noted, for example, on page one of your statement:

> "Under my direction, our budget has been shrinking while we have been helping a million more needy families with housing. In 1981, 3.2 million families were supported by HUD's housing subsidies. We will help an unprecedented 4.2 million families by the end of 1987."

On page two you state:

> "Outlays for 1991 are not determined solely in 1991 or even in 1990; they are determined largely in 1986 and 1987. Nowhere is this truer than in HUD programs, most of which are based on one-time commitments to long-term expenditures."

The same principle applies to the production of assisted housing units. Just as outlays for a given year are attributable to funding provided in prior years, so new assisted units put in place in the current year are the result of funding provided and commitments entered into several years ago. I have several questions:

Question: You say you are or will be providing housing assistance to one million more families than in 1981. How many of these families will be receiving assistance that was funded in years prior to FY 1981? Prior to FY 1982? Prior to FY 1983?

Answer: The following table reflects the total number of unit completions under the Assisted Housing programs during the 1981-1986 period and the estimated number of completions by year of initial funding:

	1981	1982	1983	1984	1985	Total
Units funded in 1980 and prior years.	248,613	158,047	115,262	63,328	19,147	604,397
Units funded in 1981.....	32,081	69,293	15,210	55,340	35,266	207,190
Units funded in 1982.....	...	24,279	79,265	6,079	11,803	121,425
Units funded after 1982..	...	...	33,618	60,826	54,943	149,388
Total completions.	280,694	251,619	243,355	185,573	121,159	1,082,400

As noted above, 604,397 (or 56 percent) of the 1.1 million units completed during the 1981-1985 period were initially funded prior to 1981. A total of 811,587 completions were initially funded prior to 1982 (75 percent) and 933,012 of the completions (86 percent) were initially funded prior to 1983.

The reason the question is answered in terms of "initial" funding is that, quite often projects receive amendments. The Department's accounting and systems data can track a project from its initial funding but cannot provide data on out of what year's funding amendment dollars were provided. This factor is of major importance in answering this question since, during the 1982-1984 time frame, this Administration provided substantial amendment funding to save previously funded units which, without this additional funding, would never have been built.

It is not possible to find in the records, information on all units amended. However, we do know that Financial Adjustment Factor (FAF) assistance was provided for 86,772 Bond Financed Units to offset massive increases in interest rates at that time resulting from inherited inflation. If these amendments--without which the projects would not have been built--are factored in, then the numbers would change as follows:

Funded prior to 1981............	517,625	(47.8%)
Funded prior to 1982............	724,815	(67.0%)
Funded prior to 1983............	846,240	(78.2%)

Question: How many families would be receiving housing assistance by the end of 1987 if the Congress had adopted all the administration's proposed reductions in housing programs since 198

Answer: Enactment of Administration proposals in the 1981-1986 period would have resulted in funding about 150 thousand fewer subsidized housing units than the Congress eventually provided. However, the Administration's proposals for subsidized housing assistance were primarily to provide assistance through existing housing using vouchers--which provides rapid housing--while the Congress tended to provide slow to complete construction money. Therefore, the number of families actually assisted at the end of 1987 would have been only about 50-60 thousand units lower than the current 4.1 million estimate.

Question: How many needy families will receive housing assistance in 1991, if the Congress adopted all of your FY '87 housing proposals? In 1992, in 1993, in 1994, in 1995, in 1996 and in 1997?

Answer: The following table provides the number of units which would be eligible for payment for fiscal years 1991 through 1997 if the Congress adopted all of the 1987 proposals:

Fiscal Year	Units eligible for payment
1991	4,438,000
1992	4,494,000
1993	4,550,000
1994	4,606,000
1995	4,662,000
1996	4,718,000
1997	4,774,000

ASSIGNMENT OF 1986 MODERNIZATION FUNDING

Question: Currently, there is a rescission request pending on a number of assisted housing accounts including that for the Public Housing Modernization program (CIAP). Should the 45-day period expire on that rescission request, what will be the timetable for the release of FY 86 CIAP funds? On what grounds would further delay of the release of these funds be justified?

Answer: The funding approved for 1986 for Public and Indian Housing Modernization (Comprehensive Improvement Assistance Program), less sequestered amounts, has been apportioned and allocated. Departmental processing instructions for Public Housing Modernization were approved on May 2, 1986. Separate Indian Housing Modernization processing instructions are expected to be approved shortly. All required actions are expected to be completed by May 30, 1986 and funding is expected to be available to Regional Offices shortly thereafter.

INSPECTOR GENERAL REPORT

Question: Mr. Secretary, the latest report of the Office of the Inspector General indicates that HUD is failing to assure that subsidized multifamily projects are not being overassessed for property tax. The I.G. found that 112 projects paid legally avoidable taxes and payments in lieu of taxes of $4,414,000 between 1971 and 1985. These overassessments, of course, are passed through as rent and increase the costs of the rent subsidy program accordingly. GAO first identified this problem in 1977. Why is it still a problem? When do you expect to have it corrected?

Answer: Because the referenced multifamily projects are privately-owned, project owners themselves have to initiate tax inquires and challenges. HUD encourages owners to do this, and has initiated several actions in response to the internal audit findings:

(a) On February 7, 1986, the Department issued a memorandum instructing the Field Offices to notify project owners and management agents to review their tax assessments and appeal them if determined to be too high. Owners must certify that tax assessments have been reviewed/appealed or HUD will not allow the full amount of taxes in determining rent increases. This action should provide an incentive for project owners to challenge unreasonably high tax assessments.

(b) HUD's Field Counsels have been instructed to review the various State statutes for possible tax exemptions that may be applicable to subsidized projects. This review is scheduled for completion by June, after which the Field Offices will be notifying eligible project owners to apply for exemptions.

We expect that these remedial actions will be in place by June 30, 1986.

SUBCOMMITTEE RECESS

Senator GARN. Thank you very much for appearing before the subcommittee today.

The subcommittee will stand to recess until Tuesday, April 29, 1986, and we will hear testimony from public witnesses on the various agencies, fiscal year 1987 budget under the jurisdiction of the subcommittee.

[Whereupon, at 11:15 a.m. Wednesday, April 9, the subcommittee was recessed to reconvene at 10 a.m. Tuesday, April 29.]

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